AUSTRALIA POST

# Financial and statutory reports

# Contents

# Statement by directors, Managing Director & Group CEO and EGM Finance & Group CFO

## 2015–16 Financial Statements

In our opinion:

(a) the accompanying financial statements for the year ended 30 June 2016:

(i) present fairly the entity's financial position, financial performance and cash flows;

(ii) comply with the accounting standards and any other requirements prescribed by the *Public Governance, Performance and Accountability Act 2013* and the Public Governance, Performance and Accountability (Financial Reporting) Rule 2015; and

(iii) have been prepared based on properly maintained financial records.

(b) at the date of this report, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they fall due.

This statement is made in accordance with a resolution of the directors.

J Stanhope AM
Chairman
Melbourne
25 August 2016

A Fahour
Managing Director & Group CEO
Melbourne
25 August 2016

J Hopkins
EGM Finance & Group CFO
Melbourne
25 August 2016

## 2015–16 Financial Statements Certification by Directors

Prior to the adoption of the 2015/16 financial statements, the Board received and considered a written statement from the Managing Director & Group CEO and EGM Finance & Group CFO that in their opinion:

- the financial records of the corporation and the consolidated entity have been properly maintained;
- the statements comply with the accounting standards and any other requirements prescribed by the *Public Governance, Performance and Accountability Act 2013* and the Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 and present fairly the entity's financial position, financial performance and cash flows; and
- integrity of the financial statements is founded on a sound system of risk management and internal control which is operating effectively.

J Stanhope AM
Chairman
Melbourne
25 August 2016

# Annual performance statements
**for the year ended 30 June 2016**

Each year, Australia Post provides a rolling four-year corporate plan. The 2015/16 plan and associated Statement of Corporate Intent were submitted to Shareholder Ministers in July 2015, detailing Australia Post's strategic direction under the Part of Tomorrow strategy.

Our primary objective is to provide high-quality, efficient services to the community. As much as possible, we will grow dividends and enhance shareholder value.

In 2015/16, we announced our Part of Tomorrow strategy to accelerate our growth agenda – Delivering eCommerce: Everyone, everywhere, everyday. We refreshed our statement of purpose: Helping our people, customers and community build a better future; and introduced the following values shared by all our people:

- Being safe everywhere;
- Respecting everyone;
- Helping each other;
- Improving everyday; and
- Delighting our customers.

The strategy will be realised through a program of strategic initiatives to win in our current business, create leading customer solutions, and reshape our portfolio.

1. Winning in our current businesses:

To win in our current businesses we will deliver on our customer promises and deliver strong financial performance.

2. Creating leading customer solutions:

To create leading customer solutions tailored to the needs of consumers, small businesses and our enterprise and government customers, we will continue to become truly customer-centric.

3. Reshaping the business:

To reshape and grow our commercial portfolio we will build, partner or acquire new products and capabilities, both to support our existing businesses, and to grow.

## Results

Key financial and non-financial performance measures set out in the plan were:

- profit before tax of $11.2 million in the first year of the plan; and
- dividends paid of $2.9 million in the first year of the plan.

Specific targets for 2015/16 and performance against these targets were as follows:

| Performance Indicator | Target | Performance |
|---|---|---|
| On-time letter delivery | 94% | 96.2% |
| Profit before tax | $11.2 million | $41.0 million |
| Shareholder return on equity | 0.5% | 2.3% |
| Ordinary dividend declared for 2015/16 | $5.8 million | $20.0 million |

## Analysis

In 2015, we gained permissions to implement the letter reforms that have delivered an ongoing viable service for all Australians, a substantial increase in payments to licensees, and have underpinned our forecast return to profit this year.

In the past 12 months, the first year of our Part of Tomorrow strategy, we have oriented our business around the customer, focused on the reality that what is best for the customer is best for the business. We have realigned around customer segments, growth opportunities, digitisation and the customer experience. It is critical that we have done this to mitigate the inherent risks in realising our strategy; in particular, the sensitivity around letter volume declines.

## Statement

The directors, as the accountable authority of Australia Post, present the 30 June 2016 performance statements of the Australian Postal Corporation and its controlled entities, as required under paragraph 39(1)(1) of the *Public Governance, Performance and Accountability Act 2013* and other applicable legislation.

In the opinion of the directors, these annual performance statements are based on properly maintained records, accurately reflect the performance of the entity, and comply with subsection 39(2) of the *Public Governance, Performance and Accountability Act 2013*.

This statement is made in accordance with a resolution of the directors.

J Stanhope AM
Chairman
Melbourne
25 August 2016

# Financial statements audit report

Auditor-General for Australia


**INDEPENDENT AUDITOR'S REPORT**

**To the Minister for Communications**

I have audited the accompanying annual financial statements of the Australian Postal Corporation and its controlled entities for the year ended 30 June 2016, which comprises the Statement by Directors, Managing Director & Group CEO and EGM Finance & Group CFO, Consolidated statement of comprehensive income, Consolidated balance sheet, Consolidated statement of changes in equity, Consolidated statement of cash flows and Notes to the financial statements. The consolidated entity comprises the Australian Postal Corporation and the entities it controlled at the year's end or from time to time during the financial year.

***Opinion***

In my opinion, the financial statements of the Australian Postal Corporation and its controlled entities:

(a) comply with Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*;

(b) present fairly the financial position of the Australian Postal Corporation and its controlled entities as at 30 June 2016 and its financial performance and cash flows for the year then ended; and

(c) comply with International Financial Reporting Standards as disclosed in the section titled 'About this report'.

***Directors' Responsibility for the Financial Statements***

The directors of the Australian Postal Corporation are responsible under the *Public Governance, Performance and Accountability Act 2013* for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards and the rules made under that Act and are also responsible for such internal control as is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. In the Note to the financial statements titled 'About this report', the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

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***Auditor's Responsibility***

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Australian Postal Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Australian Postal Corporation's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors of the Australian Postal Corporation, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

***Independence***

In conducting my audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

Australian National Audit Office

Grant Hehir
Auditor-General

Canberra
25 August 2016

# Consolidated statement of comprehensive income

## for the year ended 30 June 2016

| Consolidated ($m) | Note | 2016 | 2015 |
|---|---|---|---|
| **Revenue** | | | |
| Goods and services | A2 | 6,451.6 | 6,252.5 |
| Interest | A2 | 6.1 | 5.3 |
| | A2 | 6,457.7 | 6,257.8 |
| **Other income** | | | |
| Rents | A2 | 41.8 | 42.5 |
| Other income and gains | A2 | 62.7 | 73.5 |
| | A2 | 104.5 | 116.0 |
| **Total income** | A1, A2 | **6,562.2** | **6,373.8** |
| **Expenses (excluding finance costs)** | | | |
| Employees | A3 | 2,908.7 | 2,784.2 |
| Suppliers | A3 | 3,116.3 | 3,104.9 |
| Depreciation and amortisation | A3 | 330.3 | 340.1 |
| Other expenses | A3 | 131.1 | 465.7 |
| **Total expenses (excluding finance costs)** | A3 | **6,486.4** | **6,694.9** |
| **Profit/(loss) before income tax, finance costs and share of net profits of joint venture** | | **75.8** | **(321.1)** |
| Finance costs | A3 | (34.5) | (31.3) |
| Share of net profits of joint venture | | (0.3) | 0.3 |
| **Profit/(loss) before income tax** | | **41.0** | **(352.1)** |
| Income tax (expense)/benefit | A4 | (4.6) | 130.4 |
| **Net profit/(loss) for the year attributable to equity holders of Australian Postal Corporation** | | **36.4** | **(221.7)** |
| **Net Profit/(loss) for the year attributable to:** | | | |
| Owners of the parent | | 36.5 | (221.7) |
| Non-controlling interest | | (0.1) | – |
| **Other comprehensive income** | | | |
| **Items that will not be reclassified to profit or loss** | | | |
| Remeasurements of defined benefit plans | C3 | (172.8) | 531.1 |
| Other items | | 5.2 | – |
| Income tax on items that will not be reclassified to profit or loss | A4 | 50.2 | (159.3) |
| **Total items that will not be reclassified to profit or loss, net of tax** | | **(117.4)** | **371.8** |
| **Items that may be reclassified subsequently to profit or loss** | | | |
| Other items | | 9.4 | (0.5) |
| Income tax on items that may be reclassified to profit or loss | | (3.1) | – |
| **Total items that may be reclassified to profit or loss, net of tax** | | **6.3** | **(0.5)** |
| **Other comprehensive income for the year** | | **(111.1)** | **371.3** |
| **Total comprehensive income for the year attributable to equity holders of Australian Postal Corporation** | | **(74.7)** | **149.6** |
| **Total comprehensive income/(loss) for the year attributable to:** | | | |
| Owners of the parent | | (74.6) | 149.6 |
| Non-controlling interest | | (0.1) | – |

This statement should be read in conjunction with the accompanying notes.

# Consolidated balance sheet

## as at 30 June 2016

| Consolidated ($m) | Note | 2016 | 2015 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | A5 | 547.6 | 415.3 |
| Trade and other receivables | B1 | 544.3 | 483.4 |
| Accrued revenues | | 154.0 | 158.4 |
| Prepayments | | 116.5 | 97.6 |
| Inventories | | 50.2 | 48.2 |
| Other current assets | | 16.4 | 2.5 |
| **Total current assets** | | **1,429.0** | **1,205.4** |
| **Non-current assets** | | | |
| Finance lease receivable | E2 | 96.7 | 96.8 |
| Net superannuation asset | C3 | 403.6 | 612.9 |
| Property, plant and equipment | B2 | 1,525.8 | 1,595.3 |
| Intangible assets | B3 | 950.2 | 938.9 |
| Investment property | B5 | 213.2 | 200.0 |
| Deferred tax assets | A4 | 387.1 | 413.5 |
| Other non-current assets | | 37.6 | 31.6 |
| **Total non-current assets** | | **3,614.2** | **3,889.0** |
| **Total assets** | | **5,043.2** | **5,094.4** |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | B6 | 1,023.8 | 947.4 |
| Employee provisions | C1 | 745.0 | 653.0 |
| Interest-bearing liabilities | D2 | 285.3 | - |
| Other provisions | B7 | 35.2 | 58.9 |
| Other current liabilities | | 43.4 | 18.4 |
| **Total current liabilities** | | **2,132.7** | **1,677.7** |
| **Non-current liabilities** | | | |
| Interest-bearing liabilities | D2 | 423.2 | 713.7 |
| Employee provisions | C1 | 292.8 | 353.2 |
| Other provisions | B7 | 52.8 | 54.0 |
| Net superannuation liability | C3 | - | - |
| Deferred tax liabilities | A4 | 249.6 | 320.7 |
| Other non-current liabilities | | 53.2 | 61.6 |
| **Total non-current liabilities** | | **1,071.6** | **1,503.2** |
| **Total liabilities** | | **3,204.3** | **3,180.9** |
| **Net assets** | | **1,838.9** | **1,913.5** |
| **Equity** | | | |
| Contributed equity | | 400.0 | 400.0 |
| Reserves | | 17.1 | 7.2 |
| Retained profits | | 1,421.8 | 1,506.3 |
| **Equity attributable to equity holders of the parent** | | **1,838.9** | **1,913.5** |

This statement should be read in conjunction with the accompanying notes.

# Consolidated statement of changes in equity

## for the year ended 30 June 2016

| Consolidated ($m) | Contributed equity | Reserves | Retained profits | Non-controlling interests[1] | Total equity |
|---|---|---|---|---|---|
| Balance at 30 June 2014 | **400.0** | **7.7** | **1,356.2** | **–** | **1,763.9** |
| **Comprehensive income** | | | | | |
| Loss for the year | – | – | (221.7) | – | (221.7) |
| Other comprehensive income | – | (1.1) | 531.1 | – | 530.0 |
| Tax on other comprehensive income | – | 0.6 | (159.3) | – | (158.7) |
| **Total comprehensive income for the year** | **–** | **(0.5)** | **150.1** | **–** | **149.6** |
| **Transactions with owners** | | | | | |
| Distribution to owners (refer to note A6) | – | – | – | – | – |
| **Balance at 30 June 2015** | **400.0** | **7.2** | **1,506.3** | **–** | **1,913.5** |
| **Comprehensive income** | | | | | |
| Profit/(Loss) for the year | – | – | 36.5 | (0.1) | 36.4 |
| Other comprehensive income | – | 14.6 | (172.8) | – | (158.2) |
| Tax on other comprehensive income | – | (4.7) | 51.8 | – | 47.1 |
| **Total comprehensive income for the year** | **–** | **9.9** | **(84.5)** | **(0.1)** | **(74.7)** |
| **Transactions with owners** | | | | | |
| Non-controlling interest on acquisition of subsidiary | – | – | – | 5.3 | 5.3 |
| Put option to acquire non-controlling interest | – | – | – | (5.2) | (5.2) |
| Distribution to owners (refer to note A6) | – | – | – | – | – |
| **Balance at 30 June 2016** | **400.0** | **17.1** | **1,421.8** | **–** | **1,838.9** |

1 Relates to non-controlling interest in DFE Pty Limited for which the Group holds 75% of equity interest. DFE Pty Limited holds 100% of equity interest in Mail Plus Pty Ltd and MP Rights Pty Ltd.

Ordinary shares are classified as equity. Reserves include Asset revaluation, Foreign currency translation and Hedging reserves.
This statement should be read in conjunction with the accompanying notes.

# Consolidated statement of cash flows

## for the year ended 30 June 2016

| Consolidated ($m) | Note | 2016 | 2015 |
|---|---|---|---|
| **Operating activities** | | | |
| **Cash received** | | | |
| Goods and services | | 7,058.5 | 6,911.4 |
| Interest | | 6.0 | 5.3 |
| Income tax refund | | 22.4 | – |
| **Total cash received** | | **7,086.9** | **6,916.7** |
| **Cash used** | | | |
| Employees | | 2,838.8 | 2,927.6 |
| Suppliers | | 3,545.3 | 3,411.2 |
| Financing costs | | 32.9 | 36.5 |
| Income tax | | 3.9 | 14.7 |
| Goods and services tax paid | | 258.8 | 247.8 |
| **Total cash used** | | **6,679.7** | **6,637.8** |
| **Net cash from operating activities** | **A5** | **407.2** | **278.9** |
| **Investing activities** | | | |
| **Cash received** | | | |
| Proceeds from sales of property, plant and equipment | | 50.8 | 66.6 |
| Sundry items | | – | 1.1 |
| **Total cash received** | | **50.8** | **67.7** |
| **Cash used** | | | |
| Purchase of investment in controlled entities | | 15.7 | 7.9 |
| Purchase of investment property | | 1.0 | 0.5 |
| Purchase of property, plant and equipment | | 238.5 | 238.2 |
| Purchase of intangibles | | 58.6 | 103.3 |
| Purchase of available-for-sale financial assets | | 11.9 | – |
| **Total cash used** | | **325.7** | **349.9** |
| **Net cash used by investing activities** | | **(274.9)** | **(282.2)** |
| **Financing activities** | | | |
| **Net cash used by financing activities** | | **–** | **–** |
| **Net increase/(decrease) in cash and cash equivalents** | | **132.3** | **(3.3)** |
| Cash and cash equivalents at beginning of year | | 415.3 | 418.6 |
| **Cash and cash equivalents at end of the year** | | **547.6** | **415.3** |

This statement should be read in conjunction with the accompanying notes.

# Notes to the financial statements

for the year ended 30 June 2016

# About the financial statements

**This section outlines the basis on which the Group's financial statements have been prepared, including discussion on any new accounting standards or government rules that directly impact financial report disclosure requirements. In this section, we also outline significant events and transactions that have occurred during the year affecting the Group's financial position and performance.**

The Australian Postal Corporation (the corporation) is incorporated under the provisions of the *Australian Postal Corporation Act 1989* as amended, and is an Australian Government owned for-profit entity. The nature of the operations and principal activities of Australia Post and its subsidiaries (referred to as "the Group") are described in note A1 Segment information.

Australia Post headquarters:
111 Bourke Street
Melbourne VIC 3000
Australia

The consolidated general purpose financial report of the Group for the year ended 30 June 2016 was authorised for issue in accordance with a resolution of the directors on 25 August 2016.

The consolidated financial report is a general-purpose financial report which:

- is required by clause 1 (a) of Paragraph 42 of the *Public Governance Performance and Accountability Act 2013* (PGPA Act);
- has been prepared in accordance with the requirements of the PGPA Act, Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB);
- has been prepared on an accrual basis and in accordance with the historical cost convention, except for investment property and derivative financial instruments, which have been measured at fair value. The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedge relationships, and are otherwise carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged;
- is presented in Australian dollars with all values rounded to the nearest million dollars ($' 000,000) unless otherwise stated;
- presents reclassified comparative information where required for consistency with the current year's presentation;
- adopts all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 July 2015. Refer to note E6 for further details; and
- does not early adopt any Accounting Standards and Interpretations that have been issued or amended but are not yet effective. Refer to note E6 for further details.

## Key judgements and estimates

In the process of applying the Group's accounting policies, management has made a number of judgements and applied estimates and assumptions to future events. Judgements and estimates which are material to the financial report are found in the following notes:



## Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group. A list of controlled entities (subsidiaries) at year end is contained in note E1.

A subsidiary is an entity that the Group controls. Control is deemed when the Group is exposed to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are consolidated from the date on which control is obtained through to the date on which control ceases. The acquisition of subsidiaries is accounted for using the acquisition method of accounting.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to align any inconsistent accounting policies that may exist.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

## Foreign currency translation

The functional currency of the corporation and its Australian subsidiaries is Australian dollars.

The Group has one overseas subsidiary, as discussed in note E1. On consolidation, that entity's:

- assets and liabilities are translated into Australian dollars at the rate of exchange prevailing at the reporting date; and
- the statement of comprehensive income is translated at exchange rates prevailing at the dates of the transactions.

The exchange rate differences arising are recognised in other comprehensive income.

Transactions in foreign currencies are initially recorded by the Group at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in the fair value of the item.

## Other accounting policies

Significant other accounting policies that summarise the measurement basis used and are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

## The notes to the financial statements

The notes to the financial statements include information which is required to understand the financial statements and is material and relevant to the operations, financial position and performance of the Group. Information is considered material and relevant if, for example:

- the amount in question is significant because of its size or nature;
- it is important for understanding the results of the Group;
- it helps explain the impact of significant changes in the Group, for example, acquisitions and restructuring activities;
- it relates to an aspect of the Group's operations that is important to its future performance.

The notes have been grouped into sections to help readers understand how the Australia Post strategy, as outlined in pages 4 to 5 of the annual report, is reflected in the financial performance and position of the Group. These sections comprise:

- **Our financial performance:** Our enterprise strategy focuses on reforming our letters service, and extending and building on our parcel and other commercial service offerings. Our financial performance section provides the key financial performance measures of these business areas, as well as Group-level financial metrics incorporating revenue, taxation, cashflow and dividends.
- **Our asset platform:** Delivery of our enterprise strategy requires optimising the use of our balance sheet including streamlining and integrating certain operations. Our asset platform section outlines the key operating assets owned and liabilities incurred by the Group.
- **Our people:** To support the execution of our enterprise strategy we must embed culture and align and engage our workforce. This requires us to invest in our people so that we may achieve an inclusive and capable workforce. This investment includes remuneration activities outlined in this section of the financial report.
- **Our funding structure and management of our risks:** The Group is exposed to a number of financial risks. Our funding structure and managing our financial risks section sets out the strategies and practices the Group utilises to minimise the exposure to these risks in order to execute our enterprise strategy in a safe way, as well as outlining the current Group funding structure.
- **Other information:** This section includes mandatory disclosures required by Australian Accounting Standards and the Commonwealth Government's Public Governance, Performance and Accountability (Financial Reporting) Rule 2015, all of which Australia Post must comply with.

## Events after balance date

As announced on 2 June 2016, Australia Post and leading global provider of comprehensive logistics and transport solutions Aramex agreed to form a strategic eCommerce alliance. The alliance with Aramex complements Australia Post's existing range of global partnerships and will allow Australian businesses and consumers to take advantage of growth in cross-border eCommerce.

Under the terms of the agreement, Australia Post and Aramex have negotiated the following arrangements since 30 June 2016:

- the formation of an Asian-based joint venture by Australia Post and Aramex that will acquire the STI Co (Aust) Pty Ltd business from Australia Post; and
- the acquisition of 100 per cent of MailCall Couriers from Aramex by a wholly owned subsidiary of Australia Post in order to extend the capability of the StarTrack Courier business.

Financial completion of these arrangements is expected within the first half of the 2017 financial year.

In addition, Australia Post has acquired a minority share holding in Aramex of approximately 5 per cent of its share capital.

# Our business performance

**This section analyses the financial performance of the Group and the Postal Services and Parcel Services and segments for the year ended 30 June 2016. The focus is on business area performance, Group revenue streams, expenses, taxation, cash flows and dividend performance. Certain operational expenses are disclosed in the notes with the associated operating asset or liability in the Our asset platform and Our people sections.**

## A1 SEGMENT INFORMATION

The results of the Group's operating segments for the year ended 30 June are as follows:

| 2016 ($m) | Postal Services | Parcels Services | Unallocated & Eliminations | Total |
|---|---|---|---|---|
| **Revenue** | | | | |
| Segment revenue | 3,539.5 | 2,961.3 | 55.3 | **6,556.1** |
| Interest revenue | | | | **6.1** |
| Consolidated revenue | | | | **6,562.2** |
| **Result** | | | | |
| Earnings before net interest and income tax expense | (138.2) | 314.4 | (106.8) | **69.4** |
| Net interest | | | | **(28.4)** |
| Profit/(loss) before tax | | | | **41.0** |
| Income tax (expense)/benefit | | | | **(4.6)** |
| Net profit/(loss) for the year | | | | **36.4** |
| **Assets** | | | | |
| Segment assets | 1,641.1 | 1,806.6 | 1,189.7 | **4,637.4** |
| Superannuation asset | – | – | 403.6 | **403.6** |
| Investment in joint venture | – | – | 2.2 | **2.2** |
| Total assets | 1,641.1 | 1,806.6 | 1,595.5 | **5,043.2** |
| **Liabilities** | | | | |
| Segment liabilities | 1,441.2 | 678.0 | 1,085.1 | **3,204.3** |
| Total liabilities | 1,441.2 | 678.0 | 1,085.1 | **3,204.3** |
| **Other segment information** | | | | |
| Capital expenditure | 178.2 | 123.3 | – | **301.5** |
| Impairment losses | – | – | 82.7 | **82.7** |
| Depreciation and amortisation expense | 194.4 | 122.9 | 13.0 | **330.3** |

| 2015 ($m) | Postal Services | Parcels Services | Unallocated & Eliminations | Total |
|---|---|---|---|---|
| **Revenue** | | | | |
| Segment revenue | 3,326.0 | 2,968.2 | 74.3 | **6,368.5** |
| Interest revenue | | | | **5.3** |
| Consolidated revenue | | | | **6,373.8** |
| **Result** | | | | |
| Earnings before net interest and income tax expense | (207.5) | 290.5 | (409.1) | **(326.1)** |
| Net interest | | | | **(26.0)** |
| Profit/(loss) before tax | | | | **(352.1)** |
| Income tax (expense)/benefit | | | | **130.4** |
| Net profit/(loss) for the year | | | | **(221.7)** |
| **Assets** | | | | |
| Segment assets | 1,577.2 | 1,675.0 | 1,226.7 | **4,478.9** |
| Superannuation asset | – | – | 612.9 | **612.9** |
| Investment in joint venture | – | – | 2.6 | **2.6** |
| Total assets | 1,577.2 | 1,675.0 | 1,842.2 | **5,094.4** |
| **Liabilities** | | | | |
| Segment liabilities | 1,416.2 | 655.9 | 1,108.8 | **3,180.9** |
| Total liabilities | 1,416.2 | 655.9 | 1,108.8 | **3,180.9** |
| **Other segment information** | | | | |
| Capital expenditure | 172.1 | 186.2 | – | **358.3** |
| Impairment losses | – | – | 214.1 | **214.1** |
| Depreciation and amortisation expense | 176.2 | 116.0 | 47.9 | **340.1** |

## A1 SEGMENT INFORMATION (CONTINUED)

### Operating segments

The Group's operating segments are organised and managed based on the manner in which the product is sold and the nature of the services provided. The executive management committee (the chief operating decision makers) monitors the results of the business units separately for the purpose of making decisions about resource allocation and performance assessment.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, inventories, property, plant and equipment, computer software and goodwill, net of related provisions. Segment liabilities consist primarily of trade and other creditors, employee entitlements and advance receipts.

During the current financial year, the following changes have been made to the primary segments. These changes reflect the way the business unit results are analysed internally:

1 The previous "Retail & Agency Services" and "Mail Services" segments have been combined into "Postal Services" reflecting the nature of the overall Postal business which includes Letters, Retail and Trusted eCommerce Solutions.
2 Certain products have been realigned to different segments consistent with internal business unit reporting.
3 In the prior year, internal transfer pricing was applied between the Retail & Agency Services, Mail and Parcel Services segments. The removal of this disclosure is in line with current internal reporting.
4 In the prior year, restructuring costs were allocated to individual business units, whereas in the current year these restructuring costs are included within unallocated to ensure a like-for-like comparison between the primary segments.

Comparatives have been restated to reflect these changes.

The following represents the primary segments the Group operates in:

**Postal Services**

1 The collection, processing and distribution of mail items.
2 Providing services across identity, digital, receiver and agency service offerings, as well as the sale of financial and retail merchandise products.

**Parcel Services**

The processing and distribution of parcel and express products along with freight forwarding operations.

**Unallocated and eliminations**

If items of revenue and expense are not allocated to the core operating segments then any associated assets and liabilities are also not allocated to segments. This is to avoid asymmetrical allocations within segments which management believe would be inconsistent. The following are not allocated to operating segments as they are not considered part of the core operations of any segment:

- activities incidental to the Group's core product and service offerings, principally those which generate rental income and other miscellaneous amounts;
- non-trading items including net gains arising on disposal of fixed assets, amounts arising on remeasurement of the Group's investment property portfolio, restructuring costs, impairment of assets as result of change in group strategies and divested operations;
- expenses representing costs that are attributable to unallocated revenues;
- assets including assets under construction, investment property, cash investments, held to maturity investments, superannuation assets, investment in joint ventures and deferred tax; and
- liabilities including interest-bearing liabilities and deferred tax.

At balance date, the Group has $214.9 million (2015: $309.9 million) of assets under construction unallocated to the core operating segments that will ultimately benefit from this investment.

### Geographical segments

The Group primarily operates in Australia with no significant portion of assets or operations located outside of Australia.

# A2 REVENUE AND OTHER INCOME

## Revenue and other income for the year

**The components of revenue and other income for the year ended 30 June are as follows:**

| Consolidated ($m) | 2016 | 2015 |
|---|---|---|
| Rendering of services to: | | |
| – Related entities[1] | 180.2 | 178.0 |
| – External entities[2] | 5,992.0 | 5,790.6 |
| | 6,172.2 | 5,968.6 |
| Sale of goods to external entities[2] | 279.4 | 283.9 |
| | 6,451.6 | 6,252.5 |
| Interest income from: | | |
| – Cash and cash equivalents | 4.7 | 5.3 |
| – Loans and receivables | 1.4 | – |
| | 6.1 | 5.3 |
| **Total revenue** | **6,457.7** | **6,257.8** |
| Rents from operating leases | 32.9 | 32.2 |
| Income from investment property | 8.9 | 10.3 |
| | 41.8 | 42.5 |
| Net gain on disposal of land and buildings | 20.5 | 43.3 |
| Net foreign exchange gains | – | 2.2 |
| Change in fair value of investment property | 32.2 | 7.4 |
| Other income | 10.0 | 20.6 |
| | 62.7 | 73.5 |
| **Total other income** | **104.5** | **116.0** |
| **Total income** | **6,562.2** | **6,373.8** |

1 Related entities – related to the Commonwealth Government

2 External entities – not related to the Commonwealth Government

## Recognition and measurement

### Rendering of services

Revenue is recognised when the Group has the right to be compensated for services performed and the stage of completion can be reliably measured. It is recorded at the amount likely to be received for the provision of that service, usually set out on the invoice or contractually defined terms, excluding GST. Revenue is recognised on a commission basis where the Group acts as an agent rather than a principal in the transaction.

### Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have passed to the buyer and the costs incurred or to be incurred can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

Allowance is made for the assessed amount of revenue from postage sales as at balance date in respect of which service has not yet been provided. Refer to note B6 for further discussion on the Group's policy for unearned postage revenues.

### Interest revenue

Interest income is recognised in profit or loss as it accrues using the effective interest method and if not received at balance date, is reflected in the balance sheet as a receivable.

### Rental income

Income received from leasing Group-owned investment property to external parties under an operating lease arrangement is recorded on a straight-line basis over the lease term. Contingent rental income is recognised as income in the periods in which it is earned. Lease incentives granted are recognised as an integral part of the total rental income.

## Key estimates: International mail revenue

The Group recognises an accrual for the amount of revenue earned from delivery of international mail where statements have not been received. At 30 June 2016, included within accrued revenue, international mail related accrual was $132.6 million (2015: $121.4 million).

Revenue is determined based on a number of factors including the volume of articles delivered, the international postal organisation for which we are delivering mail and with reference to the International Postal Union guidelines.

# A3 EXPENSES

## Expenses for the year

The components of expenses for the year ended 30 June are as follows:

| Consolidated ($m) | 2016 | 2015 |
|---|---|---|
| Salaries and wages | 2,291.2 | 2,264.8 |
| Leave and other entitlements | 265.3 | 226.9 |
| Superannuation expense | 252.0 | 182.6 |
| Other employee expenses | 100.2 | 109.8 |
| **Employee benefits expense** | **2,908.7** | **2,784.2** |
| Purchase of services from external entities | 2,682.0 | 2,664.5 |
| Purchase of goods from external entities | 232.9 | 230.0 |
| Operating lease rentals | 197.0 | 206.5 |
| Investment property expenditure | 4.4 | 3.9 |
| **Supplier-related expenses** | **3,116.3** | **3,104.9** |
| Depreciation | 195.3 | 197.7 |
| Amortisation | 135.0 | 142.4 |
| **Depreciation and amortisation** | **330.3** | **340.1** |
| *Write-down and impairment of assets:* | | |
| Receivables | 1.9 | 12.9 |
| Inventory | 9.6 | 7.4 |
| Property, plant & equipment | 16.9 | 37.9 |
| Computer software | 7.0 | 81.8 |
| Goodwill & other intangibles | 47.3 | 60.8 |
| Other | – | 13.3 |
| | 82.7 | 214.1 |
| Restructuring costs | 10.8 | 200.1 |
| Net foreign exchange loss | 2.6 | – |
| Sundry expenses | 35.0 | 51.5 |
| **Other expenses** | **131.1** | **465.7** |
| **Total expenses** | **6,486.4** | **6,694.8** |

The components of finance costs for the year ended 30 June are as follows:

| Consolidated ($m) | 2016 | 2015 |
|---|---|---|
| Bonds | 31.7 | 36.6 |
| Interest rate swaps | 0.1 | (4.4) |
| Other | 2.7 | (0.9) |
| **Total finance costs** | **34.5** | **31.3** |

## Recognition and measurement

### Employee benefits expense

Refer to notes C1 and C3 for employee benefits accounting policies.

### Operating lease rentals

Operating lease payments are recognised as an operating expense in the statement of comprehensive income on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expenditure and reduction of the liability. Refer to note E2 for further discussion on specific operating leases entered into by the Group.

### Depreciation and amortisation

Refer to notes B2 and B3 for depreciation and amortisation policy discussions respectively.

### Impairment

Impairment expenses are recognised when the carrying amount of an asset or cash-generating unit exceeds its recoverable value. Refer to note B4 for further discussion specifically around impairment of non-financial assets.

### Restructuring costs

Refer to note B7 for provision-related accounting policies.

### Financing costs

Finance costs are recognised as an expense as they are incurred, except for certain interest charges attributable to major projects, for which interest is capitalised into the cost of the asset. Interest expense is calculated using the effective interest method.

Provisions, such as long service leave, are discounted to their present value. The impact of unwinding of discounted provisions and any changes in discount rate adjustments are also recognised in finance costs.

# A4 TAXATION

## Taxation performance for the year

The major components of tax expense are:

| Consolidated ($m) | 2016 | 2015 |
|---|---|---|
| Statement of comprehensive income | | |
| – current income tax charge | 41.2 | 57.0 |
| – adjustments for current income tax of previous years | (34.5) | (43.7) |
| – deferred income tax relating to origination and reversal of temporary differences | (33.3) | (162.4) |
| – adjustments for deferred income tax of previous years | 31.2 | 18.7 |
| **Income tax expense/(benefit) reported in the statement of comprehensive income** | **4.6** | **(130.4)** |
| **Other comprehensive income** | | |
| Net remeasurements on defined Benefit plans | (51.8) | 159.3 |
| Sundry items | 4.7 | (0.6) |
| **Income tax expense/(benefit) reported in other comprehensive income** | **(47.1)** | **158.7** |
| **Tax reconciliation:** | | |
| Profit/(loss) before income tax | **41.0** | **(352.1)** |
| At the Group's statutory income tax rate of 30% (2015: 30%) | 12.3 | (105.6) |
| Adjustments relating to prior years | (3.3) | (25.0) |
| Non assessable gain on pre-CGT assets | (3.6) | (3.5) |
| Sundry items | (0.8) | 3.8 |
| **Income tax expense/(benefit) on profit/(loss) before tax** | **4.6** | **(130.4)** |

## Recognition and measurement

### Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities, using tax rates and laws that are enacted or substantively enacted at reporting date.

Current income tax relating to items recognised directly in other comprehensive income is also recorded in other comprehensive income.

### Deferred tax assets and liabilities

Deferred income tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts determined under applicable Australian Accounting Standards.

Deferred tax assets and liabilities are recognised on all deductible and taxable temporary differences respectively, except:

1. to the extent it is not probable that taxable profits will be available against which the deductible temporary difference can be utilised; or
2. where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
3. where the temporary difference is associated with investments in subsidiaries, associates and joint ventures, to the extent that:
   a) the timing of the reversal of the taxable temporary difference can be controlled and it is probable that the taxable temporary difference will not reverse in the foreseeable future; or
   b) it is not probable that the deductible temporary difference will reverse in the foreseeable future or that taxable profit will not be available to utilise the deductible temporary difference.

Deferred tax assets are recognised on the carry-forward of unused tax credits and any unused tax losses only to the extent that it is probable that taxable profit will be available against which the carry-forward of unused tax credits and unused tax losses can be utilised.

Deferred tax asset balances are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Deferred tax items are recognised in correlation to the underlying transaction either in the statement of comprehensive income or in other comprehensive income.

## A4 TAXATION (CONTINUED)

Deferred income tax in the balance sheet relates to the following:

| | 2016 | 2015 |
|---|---|---|
| Superannuation asset | (121.1) | (183.9) |
| Accrued income and other | (70.7) | (62.4) |
| Research and development | (28.2) | (36.7) |
| Intangibles | (22.8) | (24.2) |
| Accelerated depreciation | (5.0) | (9.6) |
| Other | (1.8) | (3.9) |
| **Deferred tax liabilities** | **(249.6)** | **(320.7)** |
| Provisions | 328.1 | 362.5 |
| Accrued and other payables | 28.5 | 22.8 |
| Make good | 12.7 | 12.0 |
| Capital losses | 5.9 | 1.1 |
| Other | 11.9 | 15.1 |
| **Deferred tax assets** | **387.1** | **413.5** |
| **Net deferred tax assets** | **137.5** | **92.8** |

Deferred income tax in the statement of comprehensive income relates to the following:

| | | |
|---|---|---|
| Superannuation asset | (10.9) | 10.2 |
| Research and development | (8.4) | (26.8) |
| Intangibles | (6.1) | (22.8) |
| Accrued and other payable | (5.7) | (9.6) |
| Capital losses | (4.7) | 8.7 |
| Accelerated depreciation | (4.6) | (13.6) |
| Make good | (0.8) | 4.2 |
| Provisions | 34.3 | (83.8) |
| Accrued income and other | 8.3 | (8.4) |
| Other | (3.5) | (1.8) |
| **Deferred income tax expense** | **(2.1)** | **(143.7)** |

**Tax consolidation**

Australian Postal Corporation (the head entity) and its 100 per cent owned Australian resident subsidiaries (members) formed an income tax consolidated group effective 1 July 2004. DFE Pty Limited (the head entity) and its 100 per cent owned Australian resident subsidiaries (members) formed an income tax consolidated group effective 31 March 2016.

The head entity and members of each tax consolidated group have entered into a tax-sharing agreement which limits each member's income tax liability to its contribution amount should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

The head entity and members of each tax consolidated group have also entered into a tax funding agreement which provides for the allocation of current taxes between the head entity and members of the tax consolidated group in accordance with their contribution to the actual tax payable by the head entity for the period. Deferred taxes are recognised by each entity in accordance with the principles of AASB 112 Income Taxes and UIG 1052 Tax Consolidation Accounting.

## A5 CASH FLOWS

| Consolidated ($m) | 2016 | 2015 |
|---|---|---|
| Cash on hand | 547.6 | 415.3 |
| **Total cash and cash equivalents** | **547.6** | **415.3** |

The reconciliation of net profit after tax to net cash provided by operating activities for the periods ending 30 June is as follows:

| Consolidated ($m) | 2016 | 2015 |
|---|---|---|
| **Net profit/(loss) for the year** | **36.4** | **(221.7)** |
| Depreciation and amortisation | 330.3 | 340.1 |
| Net revaluation (gain)/loss on investment property | (32.2) | (7.4) |
| Write-down of property, plant and equipment | 16.9 | 37.9 |
| Write-down of intangibles (including goodwill) | 54.4 | 142.6 |
| Write-down of receivables and inventory | 11.5 | 20.3 |
| Net gain from sales of property, plant and equipment | (25.4) | (47.0) |
| Sundry items | 0.8 | (1.2) |
| | **356.3** | **485.3** |

**Changes in assets and liabilities adjusted for the acquisition and disposal of businesses**

| (Increase)/decrease in assets: | | |
|---|---|---|
| Receivables | (51.9) | 16.3 |
| Other current assets | (42.2) | (15.8) |
| Deferred income tax asset | 26.4 | (80.3) |
| Superannuation asset | 36.4 | (33.9) |
| Increase/(decrease) in liabilities: | | |
| Creditors, other payables and accruals | 10.7 | 55.8 |
| Employee entitlements | 38.8 | 137.9 |
| Income tax payable | 20.2 | (0.8) |
| Deferred income tax liability | (23.9) | (63.9) |
| | 14.5 | 15.3 |
| **Net cash from operating activities** | **407.2** | **278.9** |

### Recognition and measurement

Cash and cash equivalents comprise cash at bank, on-hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Cash flows are included in the cash flow statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, is classified as part of operating cash flows.

## A6 DIVIDENDS

The breakdown of dividends paid during the year ended 30 June is as follows:

| Consolidated ($m) | 2016 | 2015 |
|---|---|---|
| Final ordinary dividend (from prior year results) | – | – |
| Interim ordinary dividend | – | – |
| **Total dividends paid** | **–** | **–** |
| Dividend not recognised as a liability | 20.0 | – |

# Our asset platform

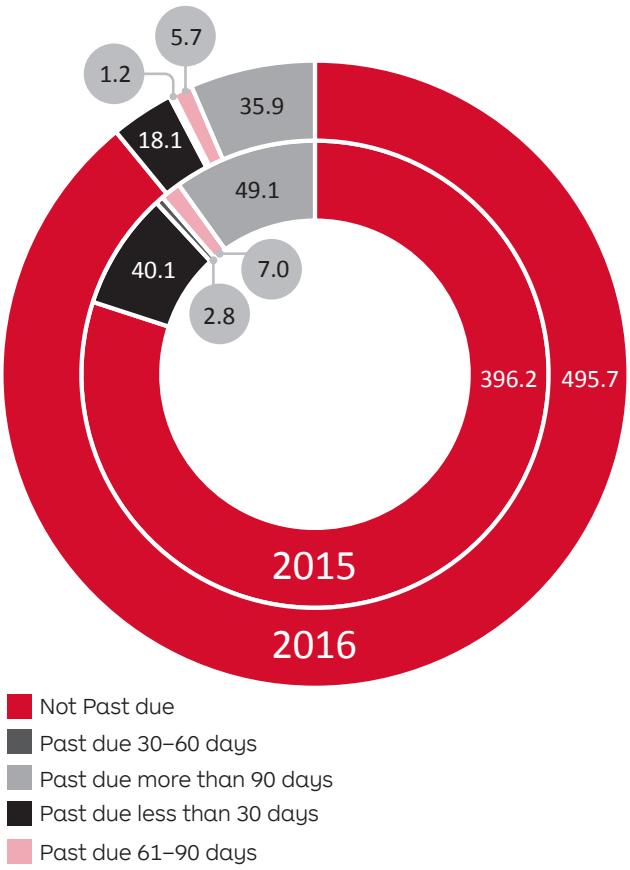
**This section analyses the primary elements of our asset platform used to generate the Group's financial performance and operating liabilities incurred as a result.**

## B1 RECEIVABLES

The composition of trade and other receivables at 30 June is:

| Consolidated ($m) | 2016 | 2015 |
|---|---|---|
| Trade receivables | 538.7 | 486.6 |
| Allowance for doubtful debts | (12.3) | (11.8) |
| | 526.4 | 474.8 |
| Other receivables | 17.9 | 8.6 |
| **Total current trade and other receivables** | **544.3** | **483.4** |

Total current trade and other receivables are aged as follows ($m):




### Recognition and measurement

Receivables for the sale of goods or performance of services (trade receivables) are recognised initially at the price on the invoice issued to the customer and subsequently at the amount considered receivable from the customer (amortised cost using the effective interest rate method) less any accumulated impairment.

These receivables are interest-free and for Australian customers, they normally have settlement terms of between 10 and 30 days, and for international customers, they are settled in accordance with Universal Postal Union (UPU) arrangements that may be longer than 30 days.

**Analysis of ageing and recoverability**

At 30 June 2016, no material receivables are individually determined to be impaired, with the total receivables determined to be impaired being $12.3 million (2015: $11.8 million). Overall, there have been no material movements in the allowance for doubtful debts during the year.

Refer to note D1 for further discussion on how the Group manages its credit risk and note A3 for the total write-down of receivables.

## B2 PROPERTY, PLANT AND EQUIPMENT

The reconciliation of the opening and closing balances of property, plant and equipment at 30 June is as follows:

| Consolidated ($m) | Land | Buildings | Total land & buildings | Plant & equipment | Total |
|---|---|---|---|---|---|
| Gross book value | 223.9 | 1,328.0 | 1,551.9 | 1,883.5 | 3,435.4 |
| Accumulated depreciation | – | (672.6) | (672.6) | (1,155.6) | (1,828.2) |
| **Net book value at 30 June 2014** | **223.9** | **655.4** | **879.3** | **727.9** | **1,607.2** |
| Additions | – | 46.1 | 46.1 | 203.3 | 249.4 |
| Depreciation | – | (59.9) | (59.9) | (137.8) | (197.7) |
| Disposals | (3.8) | (21.8) | (25.6) | (0.1) | (25.7) |
| Sundry items[1] | (2.1) | (3.9) | (6.0) | (31.9) | (37.9) |
| Gross book value | 218.0 | 1,323.1 | 1,541.1 | 1,858.2 | 3,399.3 |
| Accumulated depreciation | – | (707.2) | (707.2) | (1,096.8) | (1,804.0) |
| **Net book value at 30 June 2015** | **218.0** | **615.9** | **833.9** | **761.4** | **1,595.3** |
| Additions | 8.9 | 55.1 | 64.0 | 206.0 | 270.0 |
| Depreciation | – | (62.5) | (62.5) | (132.8) | (195.3) |
| Disposals | (2.0) | (3.8) | (5.8) | (6.1) | (11.9) |
| Sundry items[1] | 3.8 | (3.7) | 0.1 | (132.4) | (132.3) |
| Gross book value | 228.7 | 1,325.1 | 1,553.8 | 1,401.9 | 2,955.7 |
| Accumulated depreciation | – | (724.1) | (724.1) | (705.8) | (1,429.9) |
| **Net book value at 30 June 2016** | **228.7** | **601.0** | **829.7** | **696.1** | **1,525.8** |

1 Sundry items include revaluation increments of $5.2 million (2015: $2.1 million decrement), $0.1 million of additions from acquisition of subsidiary (2015: nil), offset by $114.9 million of transfers to Intangible Assets (2015: nil), $5.8 million of transfers to investment properties (2015: nil) and impairment losses of $16.9 million (2015: $35.8 million).

### Recognition and measurement

Property, plant and equipment assets are measured at the cost of the asset, less depreciation and impairment. The cost of the asset also includes the cost of replacing parts that are eligible for capitalisation, and the cost of major inspections. Where the replacement of part of an asset is considered significant, the Group recognises these as separate assets with specific useful lives. All other repairs and maintenance are recognised in the statement of comprehensive income as incurred. The expected cost for decommissioning an asset after its use is included in the cost of the respective asset at its present value, if the recognition criteria for a provision are met.

**Depreciation**

Property, plant and equipment assets, excluding land and any assets under construction, are depreciated to their estimated residual values over their estimated useful lives using the straight-line method of depreciation. Useful lives and methods are reviewed annually and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate.

A summary of the useful lives of property, plant and equipment assets is as follows:

| Asset | Useful Life |
|---|---|
| **Buildings** | General Post Offices: 70 years |
| | Other facilities: 40–50 years |
| **Plant and equipment** | Motor vehicles: 3–10 years |
| | Specialised plant and equipment: 10–20 years |
| | Leasehold improvements: lower of lease term and 10 years |

### Derecognition

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognised.

### Commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

| Consolidated ($m) | 2016 | 2015 |
|---|---|---|
| Property, plant and equipment | 111.1 | 147.5 |

## B3 INTANGIBLE ASSETS

The reconciliation of the opening and closing balances of intangible assets at 30 June are as follows:

| Consolidated ($m) | Computer software | Goodwill | Brand names & trademarks | Customer relationships | Other intangibles | Total intangibles |
|---|---|---|---|---|---|---|
| Gross book value | 1,306.0 | 520.7 | 63.4 | 134.0 | – | 2,024.1 |
| Accumulated amortisation | (876.1) | – | (0.7) | (34.6) | – | (911.4) |
| **Net book value at 30 June 2014** | **429.9** | **520.7** | **62.7** | **99.4** | **–** | **1,112.7** |
| Additions by purchase | 103.8 | – | – | – | – | 103.8 |
| Amortisation expense | (122.1) | – | (0.5) | (19.8) | – | (142.4) |
| Sundry items[1] | (78.7) | (9.0) | 0.6 | (48.1) | – | (135.2) |
| Gross book value | 812.9 | 511.7 | 64.0 | 136.0 | – | 1,524.6 |
| Accumulated amortisation | (480.0) | – | (1.2) | (104.5) | – | (585.7) |
| **Net book value at 30 June 2015** | **332.9** | **511.7** | **62.8** | **31.5** | **–** | **938.9** |
| Additions by purchase | 60.3 | – | – | – | – | 60.3 |
| Amortisation expense | (126.1) | – | (0.9) | (7.0) | (1.0) | (135.0) |
| Sundry items[1] | 108.3 | (12.8) | 3.4 | (24.2) | 11.3 | 86.0 |
| Gross book value | 963.0 | 498.9 | 66.4 | 2.2 | 11.3 | 1,541.8 |
| Accumulated amortisation | (587.6) | – | (1.1) | (1.9) | (1.0) | (591.6) |
| **Net book value at 30 June 2016** | **375.4** | **498.9** | **65.3** | **0.3** | **10.3** | **950.2** |

1 Sundry items includes $114.9 million of transfers from Property, plant and equipment (2015: nil), $25.4 million of additions from acquisition of subsidiary (2015: $7.4 million), offset by impairment losses of $54.3 million (2015: $142.6 million).

### Recognition and measurement

**Goodwill**

Goodwill is initially measured at the excess of the aggregate consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

**Brand names, trademarks, computer software, customer relationships and other intangibles**

Brand names, trademarks, computer software, customer relationships and other intangibles that are either acquired separately or in a business combination are initially measured at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. After initial recognition, intangible assets are measured at cost less amortisation and any impairment losses. Intangible assets with finite useful lives are tested for impairment whenever there is an indication of impairment while intangible assets with indefinite lives are tested for impairment in the same way as Goodwill, as discussed in note B4 Impairment of non-financial assets.

**Derecognition**

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

**Commitments**

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

| Consolidated ($m) | 2016 | 2015 |
|---|---|---|
| Intangible assets | 1.8 | 1.6 |

**Amortisation**

Intangible assets with finite lives are amortised over their useful life. Amortisation is calculated on a straight-line basis over the anticipated useful lives. The amortisation period and the amortisation method for each intangible asset with a finite useful life are reviewed annually.

A summary of useful lives of intangible assets is as follows:

| Asset | Useful life |
|---|---|
| **Computer software** | Finite between 4 and 8 years |
| **Brand names & trademarks** | P\|StarTrack brand names: indefinite<br>Others: finite not exceeding 10 years |
| **Customer relationships** | Finite up to 7 years |
| **Other intangibles** | Finite up to 3 years |

P|StarTrack brand names are considered to have indefinite useful lives as they are not considered to have foreseeable brand maturity dates; accordingly they are not amortised and are carried at cost less accumulated impairment losses. These brand names are allocated to the P|StarTrack cash-generating unit (CGU) and subject to annual impairment testing.

An assessment of indefinite useful life is performed annually to determine whether the indefinite useful life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Goodwill and brand names with indefinite useful lives acquired through business combinations have been allocated to individual CGUs as follows:

| Consolidated ($m) | 2016 | 2015 |
|---|---|---|
| Goodwill - P\|StarTrack | 488.1 | 488.1 |
| Goodwill - Other CGUs | 10.8 | 23.6 |
| Brand names - P\|StarTrack | 61.3 | 61.3 |
| | **560.2** | **573.0** |

## B4 IMPAIRMENT OF NON-FINANCIAL ASSETS

### Assessing for impairment

The Group tests property, plant and equipment, intangibles and goodwill for impairment:

- at least annually for indefinite life intangibles and goodwill; and
- where there is an indication that the asset may be impaired (which is assessed at least each reporting date); or
- where there is an indication that previously recognised impairment (on an asset other than goodwill) may have changed.

If the asset does not generate independent cash inflows and its value in use cannot be estimated to be close to its fair value, the asset is tested for impairment as part of the CGU to which it belongs. Assets are impaired if their carrying value exceeds their recoverable amount. The recoverable amount of an asset or CGU is determined as the higher of its fair value less cost of disposal or value in use. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

### Impairment calculations

The recoverable amount of each CGU is determined using a value-in-use calculation based on a discounted cash-flow model. Cash-flow forecasts are extracted from four-year corporate plans approved by senior management and the Board. The corporate plans are developed annually with a four-year outlook and, for the purpose of value-in-use calculations, are adjusted on the understanding that actual outcomes may differ from the assumptions used. The forecasts are extrapolated for a further one year and a terminal value applied based on group estimates, taking into consideration historical performance and that do not exceed the consensus forecasts of the long-term average growth rate for the industry of each CGU or asset.

A post-tax discount rate applicable to the specific CGU or asset has been applied. Discount rates used are based on the weighted average cost of capital determined by prevailing or benchmarked market inputs, risk adjusted where necessary. Other assumptions are determined with reference to external sources of information and use consistent, conservative estimates for variables such as terminal revenue growth rates. Increases in discount rates or changes in other key assumptions, such as operating conditions or financial performance, may cause the recoverable amounts to fall below carrying values.

### Recognised impairment

The Group has tested the following non-financial assets for impairment:

- goodwill and indefinite life intangibles allocated to CGUs, in accordance with annual impairment testing (refer to note B3); and
- customer relationship intangible assets for which impairment indicators have been identified.

### Key assumptions and impairment testing results

The value-in-use calculations used to determine the recoverable amount of all CGUs includes management estimates to determine income, expenses, capital expenditure and cash flows for each CGU. The revenue growth rate applied to the one-year period outside the corporate plan is 3.0 per cent (2015: 3.0 per cent). After this period a 2.0 per cent–3.0 per cent (2015: 2.0 per cent–3.0 per cent) revenue growth rate is applied. A post-tax discount rate applicable to each CGU has also been applied. These rates are between 7.5 per cent and 9.3 per cent (2015: 7.5 per cent –9.8 per cent).

Management believes that any reasonably possible change in the key assumptions would not cause the carrying amount of any CGUs containing goodwill and brand names to exceed their recoverable amount.

## B5 INVESTMENT PROPERTY

Investment property as at 30 June is as follows:

| Consolidated ($m) | 2016 | 2015 |
|---|---|---|
| Investment property | 213.2 | 200.0 |

Investment property is held by the Group for leasing to third parties for rental return as well as capital appreciation. Direct operating expenses of the investment properties are disclosed in note A3. Approximately 70 per cent of the Group's investment properties generate rental return with the remainder being held for development and capital appreciation. Rental income is disclosed in note A2.

### Recognition and measurement

Investment property is measured initially at cost, including transaction costs. The cost of the asset also includes the cost of replacing parts that are eligible for capitalisation, but excludes the costs of day-to-day servicing.

Subsequent to initial recognition, investment property is measured at fair value, with gains or losses arising from changes in the fair value recognised in the statement of comprehensive income.

**Derecognition**

When investment properties are disposed of or permanently withdrawn from use and no future economic benefit is expected, they are derecognised with the difference between the net disposal proceeds and the carrying amount of the investment property recorded in the statement of comprehensive income.

**Transfers**

Transfers are made to investment property when there is a change in use, evidenced by the ending of owner-occupation or commencement of an operating lease to a third party. Where an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. Where an investment property is reclassified to owner-occupied property, the deemed cost of the property for subsequent accounting is its fair value at the date of change in use.

### Key estimates:

**Valuation**

At each period end, the Group reassesses the fair value of its investment property portfolio. This assessment is conducted by Savills Pty Ltd (Savills), an accredited, external and independent valuer. Savills is an industry specialist in valuing these types of investment properties in accordance with Australian Valuation Standards. The fair value for each property has been determined by reference to the highest and best use of the properties, taking into account the specific characteristics and location of the asset. The best evidence of fair value is current prices in an active market for similar properties. Where such information is not available information is considered from a variety of sources including:

- current prices in an active market for properties of different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences;
- discounted cash-flow projections based on reliable estimates of future cash flows; or
- capitalised income projections based on a property's estimated net market income, and a capitalisation rate derived from an analysis of market evidence.

At 30 June 2016, investment properties comprise only level 2 properties. Refer to note D4 for fair value categories. In addition, the Group has no restrictions on the use of its investment property portfolio but is subject to an annual maintenance requirement on a number of properties subject to heritage requirements.

**Classification**

The classification of property as investment property requires management judgement, with the determination subject to change over time depending on how the property is being used by the Group. The Group has determined that these properties classified as investment property are held for the primary purposes of generating rental income or for capital appreciation. Where a property is also used for internal use, it is classified as an investment property where an insignificant portion of total floor space is occupied.

## B6 PAYABLES

The components of payables at 30 June are as follows:

| Consolidated ($m) | 2016 | 2015 |
|---|---|---|
| Trade creditors | 468.7 | 445.8 |
| Agency creditors[1] | 112.8 | 104.0 |
| Salaries and wages | 52.5 | 56.9 |
| Unearned postage revenue | 61.9 | 57.9 |
| Other advance receipts | 158.0 | 146.4 |
| Borrowing costs | 4.5 | 4.5 |
| Other payables | 165.4 | 131.9 |
| **Total current trade and other payables** | **1,023.8** | **947.4** |

1 Non-interest bearing and normally settled on next business day terms

### Recognition and measurement

Trade and other payables are carried at the amount owing to counterparties for goods and services provided, which is usually the invoice amount, and remain unpaid. Trade creditors includes both domestic and international non-interest bearing creditors. Domestic creditors are normally settled on 30-day terms, while international creditors are settled in accordance with Universal Postal Union (UPU) arrangements, which may be longer than 30 days. Salaries and wages are accrued for in accordance with note C1.

Unearned postage income arises where payment has been received from an external party, but the associated service has yet to be performed.

Other advance receipts is comprised predominantly of deferred revenue from post office boxes and bags which are rented out to the public, and advanced contributions to marketing and promotional activities.

Other payables includes amounts accrued for capital expenditure, GST obligations and other accrual of the Group.

### Key estimate: Unearned postage revenue

With respect to revenue generated from postage sales, an allowance is made at balance date where the service has not yet been provided. An actuarial valuation is undertaken every three years incorporating updates to key input assumptions including changes to product mix and patterns of purchase and use. The actuarial valuation also makes certain assumptions including applying an average initial credit balance before each postage meter reset, constant postage meter usage between resets and that the timing of resets follows a reasonably random process for business customers. The provision is reassessed every six months and where necessary, an update to the actuarial factors is made where a significant change in assumption is observed.

## B7 OTHER PROVISIONS

The Group's other provisions at 30 June are as follows:

| Consolidated ($m) | Property make good provision | Surplus lease space provision | Other provision[1] | Total |
|---|---|---|---|---|
| **Balance at 30 June 2014** | **54.1** | **36.7** | **39.5** | **130.3** |
| **– current provision** | **0.3** | **20.3** | **39.5** | **60.1** |
| **– non–current provision** | **53.8** | **16.4** | **–** | **70.2** |
| Reassessments and additions | 3.7 | (4.2) | 25.9 | 25.4 |
| Unused amount reversed | (2.3) | (1.3) | (3.2) | (6.8) |
| Payments made | (1.4) | (0.4) | (27.8) | (29.6) |
| Unwinding and discount rate adjustment | (2.2) | (4.2) | – | (6.4) |
| **Balance at 30 June 2015** | **51.9** | **26.6** | **34.4** | **112.9** |
| **– current provision** | **12.4** | **12.1** | **34.4** | **58.9** |
| **– non–current provision** | **39.5** | **14.5** | **–** | **54.0** |
| Reassessments and additions | 3.2 | (5.4) | 12.5 | 10.3 |
| Unused amount reversed | (1.9) | (3.2) | (11.1) | (16.2) |
| Payments made | (1.3) | (0.7) | (17.5) | (19.5) |
| Unwinding and discount rate adjustment | 0.9 | 0.5 | (0.9) | 0.5 |
| **Balance at 30 June 2016** | **52.8** | **17.8** | **17.4** | **88.0** |
| **– current provision** | **8.8** | **9.0** | **17.4** | **35.2** |
| **– non–current provision** | **44.0** | **8.8** | **–** | **52.8** |

1 Includes legal provisions (2016: $4.2 million; 2015: $24.7 million), onerous agreement provisions (2016: $nil; 2015: $7.0 million) and other provisions (2016: $13.3 million; 2015: $2.7 million).

### Recognition and measurement

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured as the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a financing cost.

### Key estimates: Other provisions

**Surplus lease space provisions**

Surplus lease space provisions represent the estimated lease cost of property leases surplus to the Group's requirements or where sub-let agreements are on terms substantially below market rates. The estimated cost is based on the contractually required lease payments over the remaining term of each lease agreement, less any amounts received through sub-lease agreements where applicable.

**Property make good provisions**

Property make good provisions represent the estimated cost to make good operating leases entered into by the Group. The estimated cost is based on management's best estimate of the cost to restore a square metre of floor space and is dependent on the nature of the building being leased. The provision recognised is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs are recognised by adjusting both the expense or asset (if applicable) and provision. The expected timing of the make good cost is based on the expiry of each underlying individual lease agreement.

# Our people

**This section describes a range of employment and post-employment benefits provided to our people.**

## C1 EMPLOYEE PROVISIONS

The components of employee provisions at 30 June are as follows:

| Consolidated ($m) | 2016 | 2015 |
|---|---|---|
| **Current provisions** | | |
| Employee provisions: | | |
| Annual leave | 181.2 | 178.9 |
| Long service leave | 373.5 | 349.2 |
| Separations and redundancy[1] | 100.6 | 42.1 |
| Other employee | 59.2 | 53.6 |
| | **714.5** | **623.8** |
| Employee-related provisions: | | |
| Workers' compensation | 30.5 | 29.2 |
| **Balance at 30 June** | **745.0** | **653.0** |
| **Non-current provisions** | | |
| Employee provisions: | | |
| Long service leave | 64.2 | 61.6 |
| Separations and redundancy[1] | 99.6 | 175.1 |
| Other employee | 9.4 | 4.9 |
| | 173.2 | 241.6 |
| Employee-related provisions: | | |
| Workers' compensation | 119.6 | 111.6 |
| **Balance at 30 June** | **292.8** | **353.2** |

1 The provision recognised comprises the expected severance payments, employee entitlements (including notice period), outplacement costs and payroll tax based on the location of the employee, staff level affected by the restructuring and their anticipated years of service. In estimating the expected severance payments, historical severance payments have also been considered.

### Recognition and measurement

Employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

**Annual leave**

The liability for annual leave where the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting date is recognised in current provisions. Liabilities for benefits which are expected to be settled beyond 12 months are discounted to present value using market yields on corporate bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows, and recognised in current provisions.

**Separation and redundancy**

Separation and redundancy provisions are recognised when the recognition criteria for provisions is fulfilled, and steps have been taken to implement a detailed plan and discussions with affected personnel have created a valid expectation that the restructuring is being carried out or the implementation has been initiated already.

**Long service leave**

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method.

Consideration is given to key assumptions as below. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

### Key estimates:

The long service leave provision at balance date required management judgement and independent actuarial assessment of key assumptions including, but not limited to:

- future salaries and wages increases;
- future on-cost rates; and
- period of service and experience of employee departures.

**Workers' compensation**

The Group self-insures the majority of its liability for workers' compensation as a licence holder under the *Safety, Rehabilitation and Compensation Act 1988* (SRC Act). A provision is recognised in the financial statements based on claims reported, and an estimate of claims incurred but not reported. The provision is measured using an independent actuarial assessment at each balance date, with the estimate of present value taking into account key assumptions as below, as well as pay increases, attrition rates, interest rates and the time over which settlement is made.

The liability for workers' compensation at balance date includes $21.7 million of claims made in the 2015/16 financial year (2014/15: $22.1 million).

### Key estimates:

The self-insured risk liability required management judgement and independent actuarial assessment of key assumptions including, but not limited to:

- future inflation;
- investment return;
- average claim size;
- claim development; and
- claim administration expenses.

## C2 SENIOR EXECUTIVE AND DIRECTOR REMUNERATION AND RETIREMENT BENEFITS

This note has been prepared in accordance with the requirements of the Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 and AASB 124 Related Party Disclosures.

For the purposes of this note, the Group has defined senior executives as those employees who report directly to the Managing Director & Group CEO. These employees are the only employees considered to have the capacity and responsibility for decision making that can have a significant and direct impact on the strategic direction and financial performance of the Group. Executive directors are classified as senior executives and are disclosed in this note.

### Senior executive and director remuneration by category

Remuneration received directly or indirectly by senior executives and directors under an accrual basis for the year ended 30 June is as follows:

| | Senior executives and directors | | |
|---|---|---|---|
| **Corporation and consolidated ($)** | **2016** | **2015** | **2014** |
| Short-term employee benefits[1, 2] | 12,730,978 | 8,393,297 | 13,079,359 |
| Post-employment benefits | 1,536,193 | 811,174 | 1,263,414 |
| Other long-term benefits[3] | 4,067,430 | 4,573,592 | 1,834,930 |
| Termination/retirement benefits | 368,052 | – | – |
| **Total senior executive and director remuneration** | **18,702,653** | **13,778,063** | **16,177,703** |

1 Short-term employee benefits comprise wages, salaries, paid annual leave, bonuses (if payable within 12 months of the end of the period) and non-monetary benefits.

2 The 2016 total includes the full cost of short-term incentives which have been reinstated in the current year. In 2015, these incentives were forfeited either partly or in full by senior executives in order to support the reform agenda.

3 The 2015 and 2016 totals include the cost of a long-term incentive program implemented for a number of senior executives which requires performance against Board-approved hurdles over a number of years.

### Total number of senior executives and directors

The total number of senior executives and directors who held office at any time during the year is disclosed below:

| | Senior executives and directors | | |
|---|---|---|---|
| **Corporation and consolidated (number)** | **2016** | **2015** | **2014** |
| Senior executives | 8 | 9 | 9 |
| Directors | 12 | 8 | 8 |
| | 20 | 17 | 17 |

### Related-party transactions

Transactions entered into directly by directors or director-related entities with the Australian Postal Corporation have been either domestic or trivial in nature.

A number of directors of the Australian Postal Corporation are also directors of or have interests in other entities which have transacted with the Australian Postal Corporation Group. These transactions have occurred on terms and conditions no more favourable than those which it is reasonable to expect the Group would have adopted if dealing with any third party on normal commercial terms.

## C3 POST-EMPLOYMENT BENEFITS

All employees are entitled either to benefits from the Group's defined benefit plan Australia Post Superannuation Scheme (APSS - the Fund) on retirement, disability or death or can direct the Group to make contributions to a defined contribution plan of their choice.

### Defined benefit post-employee benefits

**Amount recognised in the statement of comprehensive income and in the balance sheet**

The amount recognised in the statement of comprehensive income for the year ended 30 June is as follows:

| Consolidated ($m) | 2016 | 2015 |
|---|---|---|
| Current service cost | 194.9 | 190.6 |
| Past service cost | – | (90.7) |
| Interest cost on benefit obligation | 143.6 | 121.2 |
| Interest income on plan assets | (164.0) | (125.4) |
| Plan expenses | 12.0 | 12.6 |
| Contributions tax reserve | – | 16.9 |
| **Defined benefit superannuation expense** | **186.5** | **125.2** |

The reconciliation of the changes in the present value of the amounts recognised in the balance sheet at 30 June is as follows:

| **Changes in the present value of defined obligation** | | |
|---|---|---|
| **Opening defined benefit obligation at 1 July** | 3,310.7 | 3,685.9 |
| Interest cost | 143.6 | 121.2 |
| Current service cost | 194.9 | 190.6 |
| Benefits paid and payable | (254.1) | (344.4) |
| Past service cost | – | (90.7) |
| Actuarial gain/(loss) due to changes in financial assumptions | 163.7 | (225.9) |
| Actuarial gain/(loss) due to changes in demographic assumptions | – | (6.9) |
| Other remeasurements | (52.0) | (19.1) |
| **Closing defined benefit obligation at 30 June[1]** | **3,506.8** | **3,310.7** |

| **Changes in the fair value of the plan assets** | | |
|---|---|---|
| Opening fair value of plan assets at 1 July | 3,923.6 | 3,726.5 |
| Return on plan assets | (40.4) | 291.5 |
| Interest income on plan assets | 164.0 | 125.4 |
| Contributions by employer | 150.0 | 159.1 |
| Benefits paid and payable | (254.1) | (344.4) |
| Plan expenses | (12.0) | (12.6) |
| Contributions tax reserve | (20.7) | (21.9) |
| **Fair value of plan assets at 30 June[1]** | **3,910.4** | **3,923.6** |

| **Amount recognised in other comprehensive income** | | |
|---|---|---|
| Remeasurements on liability | 111.7 | (251.9) |
| Return on plan assets excluding interest income | 40.4 | (291.5) |
| Contributions tax | 20.7 | 12.3 |
| **Total amount to be recognised in other comprehensive income** | **172.8** | **(531.1)** |

1 Excluded from the obligation and plan assets above is $3,524.3 million (2015: $3,483.0 million) relating to member-financed accumulated benefits.

### Recognition and measurement

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using market yields of corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised in the statement of comprehensive income as past service costs at the earlier of the date on which the amendment or curtailment occurs or when associated restructuring costs are recognised. The past service cost for the prior period comprises a reduction in the defined benefit obligation due to changes to the APSS as announced in the 2014 financial year, and this was partly offset by a curtailment loss resulting from the Group's planned restructuring activities. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the statement of changes in equity and in the balance sheet.

**Superannuation plan**

The corporation is an employer sponsor of the APSS. In addition, certain employees of StarTrack Express Pty Ltd, Post Super Pty Ltd and Decipha Pty Ltd are members of the fund. The APSS provides employer-financed defined benefits to all employees who are members and member-financed accumulation benefits to those who elect. Member-financed accumulation balances at 30 June 2016 totalling $3,524.3 million (30 June 2015: $3,483.0 million) have been excluded from the disclosures. On 30 June 2012 the fund closed to new members.

### Regulatory framework and governance

The APSS is governed by the rules as set out in the APSS Trust Deed. The current Trust Deed (including amendments contained in the Deed of Modifications 1 to 14) was consolidated in September 2014. APSS is a "regulated fund" under the provisions of the *Superannuation Industry (Supervision) Act 1993* (SIS). The Scheme is treated as a complying defined benefit superannuation fund for taxation purposes.

The APSS is operated by the APSS Trustee. By law, the APSS Trustee is required to act in good faith and in the best interests of members, and operate in accordance with the APSS Trust Deed. The board of the Trustee is comprised of three member representative directors, three employer-appointed directors, and an independent director.

### Funding arrangement and requirements

The APSS is funded by the corporation and its associated employers, with the funding requirements being based on the recommendations of the APSS actuary. The current funding recommendations are based on a methodology that calculates a long-term normal cost to provide the APSS benefits, plus additional contributions being required in the event that the assets are not sufficient to meet members' vested benefits.

The Group is expected to make employer contributions (excluding salary sacrifice contributions in respect of Members Savings) of $145 million for the year ended 30 June 2017.

As under the current arrangements, the corporation can cease making contributions at any time to the APSS, the corporation has no legal requirement to contribute to the APSS. As such, the corporation does not currently have any minimum funding requirements in respect of the APSS.

### Categories of plan assets ($m)[1]

The fair value of total plan assets is as follows:

| Consolidated ($m) | 2016 | 2015 |
|---|---|---|
| *Active Market* | | |
| Cash | 64.4 | 53.3 |
| Australian public equities | 275.0 | 218.5 |
| International public equities | 834.9 | 622.0 |
| Emerging markets public equities | 279.2 | 268.4 |
| Australian public debt | 532.8 | 561.9 |
| International public debt | 200.1 | 185.0 |
| *Inactive Market* | | |
| Equities and debt | 1,401.3 | 1,501.5 |
| Real estate | 322.7 | 513.0 |
| | 3,910.4 | 3,923.6 |

1 There are no in-house assets included in the fair value of the APSS assets; however, there may be an immaterial amount of indirect investments in shopping centres where the corporation has leased certain areas for Australia Post shops.

### Related-party transactions

The Group performs administrative services on behalf of its Superannuation Fund APSS. These services are provided on normal commercial terms. Payment received by Australia Post for these services for the year ended 30 June 2016 is $12.0 million (2015: $12.6 million).

### Amount recognised in the balance sheet

The amount recognised in the balance sheet as at 30 June is as follows:

| Consolidated ($m) | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Present value of benefit obligation (wholly funded) | (3,506.8) | (3,310.7) | (3,685.9) | (3,433.3) | (3,393.2) |
| Fair value of plan assets | 3,910.4 | 3,923.6 | 3,726.5 | 3,431.9 | 3,194.4 |
| Contributions tax reserve | – | – | 7.2 | (0.2) | (35.1) |
| Net superannuation asset/(liability)[1] | 403.6 | 612.9 | 47.8 | (1.6) | (233.9) |

1 The corporation's entitlement to any surplus in the Fund is limited by the terms of the relevant Trust Deed and applicable superannuation laws. On termination, any money and other assets remaining in the Fund after the payment of benefits and expenses of the Fund would ultimately be realised and the proceeds distributed to the employers (including the corporation) in such shares as determined by the corporation. Outside termination, there is scope for the corporation to request a return of surplus, which may be no more than the amount (as determined by the Fund's actuary) by which the total Fund value exceeds the total accrued benefit value. In addition, the corporation benefits from the surplus through reduction in future superannuation expense and contributions.

## C3 POST-EMPLOYMENT BENEFITS (CONTINUED)

### Management of the plan risks

The funding of the plan is dependent upon future experience. Material adverse risks in respect of funding include market risk, salary inflation risk, liquidity risk, and the risk of higher than expected death and disability benefits.

### Key assumptions and sensitivities

The significant actuarial assumptions used in determining superannuation obligations for the Group's plan are shown below (expressed as weighted averages), as well as the sensitivity for each significant assumption:

| | | | Sensitivity ($m) | | | |
|---|---|---|---|---|---|---|
| | Actuarial assumption (%) | | Rate increase of 1% | | Rate decrease of 1% | |
| Consolidated | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Discount rate | **3.2** | 4.3 | **(253.5)** | (235.9) | **292.5** | 271.7 |
| Future inflationary salary increases (for year to 30 June 2015) | **n/a** | 2.0 | **–** | – | **–** | – |
| Future inflationary salary increases (the period thereafter) | **2.5** | 2.5 | **239.8** | 224.9 | **(208.9)** | (195.8) |

The determination of the defined benefit obligation requires a number of other assumptions to be made regarding the future including the demographic profile of membership and level of benefits to be provided by the Fund.

### Maturity profile

The duration of the liabilities is approximately 8.5 years (2015: 9 years), calculated using expected benefit payments on an accrual basis.

### Defined contribution post-employment benefits

Australia Post pays the Superannuation Guarantee contribution to the nominated superannuation funds of employees who are not members of the Fund, or those who have voluntarily elected not to be members of the Fund.

Defined contribution post-employment benefits are expensed by the Group as service is rendered by the Group's employees. The defined contributions superannuation expense recognised in respect of post-employee benefits is as follows:

| Consolidated ($m) | 2016 | 2015 |
|---|---|---|
| Defined contribution superannuation expense | 65.2 | 57.4 |

### Superannuation Act 1976

Some of the corporation's current and past employees are also entitled to benefits under the *Superannuation Act 1976*, but the Group has no contribution obligation in respect of these benefits. The superannuation asset or liability relating to the Commonwealth Superannuation Scheme (CSS) under the *Superannuation Act 1976* is recognised in the financial statements of the Commonwealth and is settled by the Commonwealth in due course. The Commonwealth takes full responsibility for the CSS liabilities for any Australia Post employees (past and present) remaining in the CSS.

Disclosures regarding the CSS Scheme are located in the Department of Finance Annual Financial Report.

# Our funding structure and management of our financial risks

**As a result of its operations, the Group is exposed to multiple forms of risk. This note sets out the nature of the financial risks and their quantification and management. This section also sets out the strategies and practices the Group utilises to minimise the exposure to these risks in order to execute our enterprise strategy as well as outlining the current Group funding structure.**

## D1 CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the ability to continue as a going concern while maximising the return to the Commonwealth Government. The Group recognises the impact on shareholder returns of the level of equity capital employed and seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity possible with some leverage. A further consideration when managing capital is maintenance of an investment grade rating. The Group holds a AA– rating (2015: AA–) from the independent ratings agency Standard & Poor's.

The capital structure of the Group (which has not changed from the prior year) consists of debt, which comprises bonds payable and syndicated revolving committed facilities, a bank overdraft facility, cash and cash equivalents and equity attributable to equity holders of the corporation, comprising contributed equity, reserves and retained profits. The capital structure is reviewed annually as part of the Corporate Plan, which includes analysis of the return on equity, return on average operating assets and debt to debt plus equity ratios implicit in the Corporate Plan.

## D2 MANAGING OUR FINANCIAL RISKS

### Financial risk management objectives

The Board reviews and agrees on policies for managing the Group's financial risks. The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk and foreign currency risk. Exposure to commodity risk in relation to the bulk purchase of fuel and third-party contract pricing mechanisms, managed through the use of hedging derivatives, is considered insignificant.

**Credit risk**

The Group makes sales on credit terms and therefore it is exposed to the risk that a customer may not repay their entire obligations in full as required. In addition to the above, the Group provides financial guarantees to third parties, which commit the Group to make payments on behalf of these parties upon their failure to perform under the terms of the relevant contract. At 30 June, the maximum credit risk in respect to guarantees was $232.4 million (2015: $226.2 million) which relates to bank guarantees over projected workers' compensation claims liabilities provided by the Group.

**Credit risk management: trade and other receivables**

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures, including an assessment of their independent credit rating, financial position, past experience and industry reputation. In addition, individual receivable balances are monitored on an ongoing basis with the result that the exposure to bad debts is not significant.

**Credit risk management: financial instruments**

Counterparty limits are reviewed regularly by the treasury group with recommended limits endorsed by the Board. Investment of surplus funds is made only with approved high investment grade counterparties as rated by Standard & Poor's. Surplus funds invested with bank counterparties are all rated A- or better (2015: A– or better).

Accordingly, credit risk on derivative financial instruments is limited and managed using the principle of the APRA Current Exposure Method as described in its guidance note AGN 112.2, taking into account both current credit exposure and potential future credit exposure.

**Liquidity risk management**

Liquidity Risk is the risk that the Group will not be able to meet its obligations, such as the provisions and payables outlined in notes B7 and B6 respectively, when they fall due. The Group's liquidity risk management seeks to ensure that there are sufficient funds available to meet financial commitments in a timely manner and plan for unforeseen events which may cause pressure on liquidity. The Group measures and manages liquidity risk by forecasting liquidity and funding requirements for the next three years as a minimum, which is reviewed annually by the Board as part of the Treasury Strategy Paper. The treasury group also prepares and reviews a rolling daily cash forecast for the quarter to manage short-term liquidity requirements.

**Financing facilities**

The Group had the following financing facilities available throughout the financial year:

- a three-year revolving committed facility of $200 million expiring 25 June 2018 and a five-year revolving credit facility of $200 million expiring 25 June 2020, both of which are available for draw down for a minimum of 30 days.
- a bank overdraft facility of $15 million available for draw-down and repayable on demand, as required.

## D2 MANAGING OUR FINANCIAL RISKS (CONTINUED)

### Maturity of financial liabilities

The tables below detail the Group's remaining contractual maturity for its material non-derivative financial liabilities, as well as cash outflows arising from derivative financial instruments.

The table presents undiscounted cash flows based on the earliest date on which the Group can be required to pay comparing against the carrying amount of the relevant financial liabilities. The tables include both interest and principal cash flows. Where interest flows are floating rate, the undiscounted amount is derived from the interest rate curves at the end of the reporting period. For financial guarantee contracts and undrawn loan commitments, the maximum amount of the guarantee and undrawn loan commitment is allocated to the earliest period in which the guarantee or loan commitment can be called.

The table also includes cash outflows arising from derivative financial instruments, based on the undiscounted net cash outflows on derivative instruments that settle on a net basis and the undiscounted gross cash outflows on those derivatives that require gross settlement. The amount disclosed has been determined by reference to the projected cash outflows illustrated by the yield or forward curves existing at reporting date.

| | Contractual maturity (nominal cash flows) | | | | | Carrying amount (assets)/ liabilities |
|---|---|---|---|---|---|---|
| Consolidated ($m) | Less than 1 year | 1 to 2 years | 2 to 5 years | Over 5 years | Total nominal cash flows | |
| **As at 30 June 2016** | | | | | | |
| Trade and other payables | 665.9 | – | – | – | **665.9** | **665.9** |
| Bonds payable | 317.5 | 22.1 | 310.1 | 199.1 | **848.8** | **708.5** |
| Interest rate swaps | (8.2) | – | – | – | **(8.2)** | **(6.1)** |
| Hedge foreign exchange contracts (net settled) | (5.6) | (0.5) | – | – | **(6.1)** | **(6.1)** |
| Financial guarantee contracts[1] | – | – | – | – | **–** | **–** |
| | **969.6** | **21.6** | **310.1** | **199.1** | **1,500.4** | **1,362.2** |
| **As at 30 June 2015** | | | | | | |
| Trade and other payables | 610.6 | – | – | – | **610.6** | **610.6** |
| Bonds payable | 37.5 | 317.5 | 66.4 | 464.9 | **886.3** | **713.7** |
| Interest rate swaps | (4.3) | (6.3) | – | – | **(10.6)** | **(11.2)** |
| Hedge foreign exchange contracts (net settled) | 0.2 | (0.6) | – | – | **(0.4)** | **(0.4)** |
| Financial guarantee contracts[1] | 0.5 | – | – | – | **0.5** | **–** |
| | **644.5** | **310.6** | **66.4** | **464.9** | **1,486.4** | **1,312.7** |

1 This represents the maximum amount that could be called on by the counterparty. This contract has been fully settled during the year (2015: $0.5 million).

### Interest rate risk management

The Group's objective in managing interest rate risk is to minimise interest rate exposure by matching asset and liability positions to achieve a natural hedge, while ensuring that an appropriate level of flexibility exists to accommodate potential changes in funding requirements. Interest rate risk is measured by regularly reviewing the net exposure from interest-bearing assets and liabilities. The risk is managed by the use of interest rate swap contracts wherein the Group agrees to exchange the difference between the fixed and floating rate interest amounts calculated on agreed notional principal amounts.

### Exposure

The Group's primary exposure to interest rate risks of interest-bearing financial assets and financial liabilities is set out below. Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument.

| | Carrying amount | |
|---|---|---|
| Consolidated ($m) | 2016 | 2015 |
| **Financial assets** | | |
| Cash and cash equivalents (floating rate) | 389.6 | 249.6 |
| **Financial liabilities** | | |
| Bonds payable (fixed rate) | 708.5 | 713.7 |
| Interest rate swaps (fixed rate) | (285.3) | (290.8) |
| Interest rate swaps (floating rate) | 279.2 | 279.6 |

### Interest rate risk sensitivity

An interest rate sensitivity analysis of the Group at the reporting date has been performed, using a 30 basis point (2015: 40) change to quantify the possible risk based on Australian Government Department of Finance guidance and holding all other variables constant.

Using the exposure to interest rates from financial instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and being held constant throughout the period, the sensitivity analysis indicated that the impact on profit after tax at reporting date would be $0.8 million (2015: $0.6 million) increase/decrease in profit after tax.

### Interest-bearing liabilities

The consolidated borrowing position of the Group at 30 June comprises the following fixed-rate unsecured bonds, which are repayable in full, with $280 million maturing on 6 February 2017, $250 million maturing on 13 November 2020 and the remaining $175 million maturing on 13 November 2023.

| Consolidated ($m) | 2016 | 2015 |
|---|---|---|
| Payable in less than 1 year[1] | 285.3 | – |
| **Current loan liabilities** | **285.3** | **–** |
| Payable in 1–5 years[2,1] | 249.4 | 290.8 |
| Payable in over 5 years[2] | 173.8 | 422.9 |
| **Non–current loan liabilities** | **423.2** | **713.7** |
| **Total** | **708.5** | **713.7** |

1 Designated in fair value hedge relationships at amortised cost and adjusted by the gain/loss attributable to interest rate risk.

2 Measured at amortised cost.

### Foreign currency risk management

The Group has rights and obligations with overseas postal administrations which are invoiced in Special Drawing Rights (SDR) and settled in Euros (EUR) and United States Dollars (USD). The SDR is a basket currency composed of fixed quantities of the four major traded currencies (USD, Japanese Yen, EUR and Pound Sterling). The composition of the basket is set by the International Monetary Fund. International mail receipts and payments are highly variable in amount and timing as well as being ongoing in nature. For the Group, the requirement to settle in a foreign currency exposes it to the risk that future cash payment amounts may fluctuate due to changes in the foreign exchange rates. The Group undertakes hedging strategies with respect to the SDR exposure using forward exchange contracts, options and collars. These aim to mitigate the volatility experienced in the income statement caused by movements in the SDR/AUD exchange rate. Each foreign currency exposure, other than the SDR, is measured and managed on an item-by-item basis and individual exposures over $500,000 are hedged through the use of forward currency contracts.

### Exposure

The carrying amount of monetary assets and monetary liabilities as at balance date is shown in the table below.

Other major sources of foreign exchange transaction risk are as a result of foreign sourced and priced capital equipment, purchases or sales in foreign currencies (including fuel purchases) and foreign currency bank accounts.

### Foreign currency sensitivity

The following table also details the effect on profit after tax as at 30 June from a 10.5 per cent (2015: 10.9 per cent) favourable/unfavourable change in the Australian dollar based on Australian Government Department of Finance guidance with all other variables held constant. The sensitivity analyses below have been determined based on the exposure to foreign currencies from financial instruments at the reporting date.

| | | Exchange +10.5% | | Exchange –10.5% | |
|---|---|---|---|---|---|
| Consolidated AUD ($m) | Exposure | Impact on profit | Impact on equity | Impact on profit | Impact on equity |
| **2016** | | | | | |
| **Financial assets** | | | | | |
| Cash on hand | 127.5 | (8.5) | – | 8.5 | – |
| Trade and other receivables | 163.7 | (12.0) | (5.6) | 12.0 | 5.6 |
| Available-for-sale financial assets | 11.9 | – | (0.8) | – | 0.8 |
| **Financial liabilities** | | | | | |
| Trade and other payables | (80.6) | 5.9 | – | 5.9 | – |
| **Net Exposure** | **222.5** | **(14.6)** | **(6.4)** | **14.6** | **6.4** |
| | | Exchange +10.9% | | Exchange –10.9% | |
| | Exposure | Impact on profit | Impact on equity | Impact on profit | Impact on equity |
| **2015** | | | | | |
| **Financial assets** | | | | | |
| Cash on hand | 8.1 | (0.5) | – | 0.5 | – |
| Trade and other receivables | 154.7 | (14.8) | (7.9) | 14.8 | 7.9 |
| **Financial liabilities** | | | | | |
| Trade and other payables | (71.0) | 4.9 | – | (4.9) | – |
| **Net Exposure** | **91.8** | **(10.4)** | **(7.9)** | **10.4** | **7.9** |

Of the total $222.5 million of foreign currency denominated exposures, $122.0 million is USD, $83.1 million is SDR and $11.9 million in AUD. The remaining $5.5 million is made up of GBP, EUR and NZD (2015: Total of $91.8 million is $83.8 million of SDR and $6.9 million of USD. Remaining $1.1 million is made up of GBP, EUR and NZD).

The receivables and payables denominated in SDR, on which the sensitivity is shown in the table above, are not necessarily representative of the Group's exposure to currency risk for the years ended 30 June 2016 and 30 June 2015. The receivables and payables denominated in SDR are highly variable in amount and timing, in particular due to the timing of receipts and settlements with overseas postal administrations.

## D3 USING DERIVATIVES TO HEDGE RISK

**Types of hedging instruments**

The Group uses the following types of derivative financial instruments as part of its risk management strategy:

### Interest rate swaps

Interest rate swaps are used to manage the exposure to interest rate movements arising from Group borrowings. Under interest rate swap contracts the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held.

The following table details the notional principal amounts and remaining terms of fixed for floating interest rate swap contracts as at balance date.

| Consolidated | Fixed interest rate % | Notional principal amount ($m) |
|---|---|---|
| **2016** | | |
| From 1–5 years | 5.5 | 280.0 |
| **2015** | | |
| From 1–5 years | 5.5 | 280.0 |

During the year, the Group had interest rate swap contracts which settled on a quarterly basis. The floating rate on the $280 million interest rate swaps is quarterly BBSW plus 131 basis points.

Interest rate swap contracts are designated as fair value hedges in respect of interest rates. The gain or loss from remeasuring the hedging instrument at fair value is recorded in profit or loss and to the extent that the hedge is effective, the carrying amount of the borrowing is adjusted by the gain or loss attributable to the hedged risk through profit or loss.

### Foreign currency derivatives

All foreign currency contracts are entered into on the basis of known or projected exposures. The Group has elected to adopt hedge accounting in respect of some of its foreign currency hedging exposures, excluding SDR. The fair value of foreign currency contracts designated as hedging instruments is a net asset of $6.1 million (2015: net asset of $0.4 million) for the Group.

The portion of the gain or loss on the designated forward currency contracts that are determined to be effective hedges is deferred in other comprehensive income and will be recognised in the measurement of the underlying transaction.

As at balance date, the aggregate amount of unrealised gains/losses under foreign forward currency contracts deferred in the hedging reserve related to contracted future payments for inventory and capital expenditure. It is anticipated that the payments will mostly take place within 24 months after reporting date at which stage the amount deferred in equity will be included in the initial cost of the inventory and capital equipment.

It is anticipated that the amounts in relation to inventory will impact the statement of comprehensive income over the next one year and amounts in relation to equipment capital expenditure will impact the statement of comprehensive income over the next 5 to 20 years after the assets are available for use.

The Group hedges its expected SDR revenue flows and has elected not to adopt hedge accounting on these contracts. The gain or loss from remeasuring these SDR contracts is recorded in profit and loss.

The following table details the foreign currency contracts outstanding as at balance date:

| Consolidated | Average exchange rate | Notional amount (foreign currency) ($m) |
|---|---|---|
| **2016** | | |
| **BUY USD** | | |
| 0–6 months | 0.741 | 14.7 |
| | | **14.7** |
| **BUY EUR** | | |
| 0–6 months | 0.689 | 4.1 |
| 7–12 months | 0.678 | 8.2 |
| over 12 months | 0.671 | 13.5 |
| | | **25.8** |
| **BUY JPY** | | |
| over 12 months | 89.208 | 2,436.6 |
| | | **2,436.6** |
| **2015** | | |
| **BUY USD** | | |
| 0–6 months | 0.790 | 20.3 |
| 7–12 months | 0.780 | 1.9 |
| over 12 months | 0.771 | 3.1 |
| | | **25.3** |
| **BUY EUR** | | |
| 0–6 months | 0.681 | 10.5 |
| over 12 months | 0.676 | 25.7 |
| | | **36.2** |
| **BUY GBP** | | |
| 0–6 months | 0.510 | 0.8 |
| 7–12 months | 0.502 | 0.2 |
| | | **1.0** |
| **BUY JPY** | | |
| 0–6 months | 93.638 | 140.1 |
| over 12 months | 89.507 | 2,382.2 |
| | | **2,522.3** |
| **SELL SDR** | | |
| 0–6 months | 1.777 | 72.1 |
| 7–12 months | 1.823 | 34.8 |
| | | **106.9** |

## Recognition and measurement of derivatives

Derivative financial instruments are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured to fair value.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of comprehensive income, except for derivatives designated in cash flow hedge arrangements with the effective portion recognised in other comprehensive income.

The fair value of non-optional derivatives is determined based on discounted cash flow analysis using the applicable yield curve or forward curve (commodity) for the duration of the instrument. The fair value of optional derivatives is determined based upon valuation techniques consistent with accepted industry practice.

Derivative instruments are classified as current or non-current based on an assessment of the facts and circumstances pertaining to the derivative (i.e. the underlying contracted cash flows) and whether it's designated in a hedge relationship.

**Hedge accounting**

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedged item's fair value or cash flows attributable to the hedged risk.

Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine their effectiveness.

## Hedge accounting designations

**Cash flow hedges**

Used by the Group to hedge exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a highly probable forecast transaction.

For cash flow hedges, the portion of the gain or loss on the hedging instrument that is effective is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts recognised in equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged income or expenses are recognised or when a forecast sale occurs or the asset is consumed. When the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or roll-over, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs.

The Group uses cash flow hedges to mitigate the risk of variability of future cash flows attributable to foreign currency fluctuations over the hedging period associated with foreign exchange business activities.

The maturity profile of cashflow hedges is shown in Note D2.

**Fair value hedges**

Used by the Group to hedge the exposure to changes in the fair value of a recognised asset or liability or unrecognised firm commitment.

The carrying value of the hedged item is adjusted for gains and losses attributable to the risk being hedged. The derivative is also remeasured to fair value, with the net gain or loss recognised in the statement of comprehensive income.

If the hedged item is a firm commitment (and therefore not recognised), the subsequent cumulative change in the fair value of the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in the statement of comprehensive income.

The Group discontinues fair value hedge accounting if the hedge instrument expires or is sold, is terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

If the hedged item is a financial instrument for which the effective interest method is used, the accumulated changes in its carrying value are amortised to profit or loss over the remaining life of the instrument from the point at which hedge accounting is discontinued.

The Group uses fair value hedges to mitigate the risk of changes in the fair value of borrowings from interest rate fluctuations over the hedge period.

The maturity profile of fair value hedges is shown in Note D2.

# D4 FAIR VALUE MEASUREMENT

## Valuation of financial instruments

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; or
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The methods and assumptions used to estimate the fair value of financial instruments are as follows:

**Cash**

The carrying amount is fair value due to the asset's liquid nature.

**Receivables/payables**

Due to the short-term nature of these financial rights and obligations, carrying amounts are estimated to represent fair values.

**Derivatives**

The fair values are calculated as the present value of estimated future cash flows using a market-based yield curve and forward rates sourced from available market data quoted for all major currencies and commodities. Accordingly, these financial instruments are classified as Level 2.

The fair value of forward contracts is calculated by reference to forward exchange market rates at reporting date for contracts with similar maturity profiles. As market rates are observable they are classified as Level 2.

**Interest-bearing loans and borrowings**

Quoted market prices or dealer quotes for similar instruments are used to value long-term debt instruments, except corporate bonds, based on discounting expected future cash flows at market rates.

**Fair value measurements recognised in the balance sheet**

Except as detailed in the table below, the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated balance sheet approximates their fair value.

| Consolidated ($m) | Carrying amount | Fair value |
|---|---|---|
| **2016** | | |
| **Financial assets** | | |
| Finance lease receivable | 103.2 | 135.8 |
| **Financial liabilities** | | |
| Bonds payable | 708.5 | 759.7 |
| **2015** | | |
| **Financial assets** | | |
| Finance lease receivable | 103.3 | 112.2 |
| **Financial liabilities** | | |
| Bonds payable | 713.7 | 749.0 |

The financial assets and liabilities not measured at fair value in the consolidated balance sheet are disclosed above. In valuing them at fair value, they would be categorised as Level 2 with the fair value of each financial asset and liability determined by discounting the expected future cash flows using the applicable yield curve for assets and liabilities with similar risk and maturity profiles.

There was no transfers between Levels during the year.

# Other information

**This section includes additional financial information that is required by either accounting standards or the Public Governance, Performance and Accountability (Financial Reporting) Rule 2015.**

## E1 OUR SUBSIDIARIES

The below is a list of the Group's controlled entities, all of which are incorporated in Australia unless otherwise noted:

| | 2016 % | 2015 % |
|---|---|---|
| AP Innovation Ventures Pty Ltd[1] | 100 | - |
| AP International Holdings Pty Ltd[1] | 100 | 100 |
| ApeCom Fund Incorporated Limited Partnership[9] | 100 | - |
| APost Accelerator Pty Ltd[1] | 100 | - |
| APost Innovation Pty Ltd[1] | 100 | - |
| Australia Post Digital MailBox Pty Ltd[10] | 100 | 100 |
| Australia Post Licensee Advisory Council Limited[5] | 50 | 50 |
| Australia Post Services Pty Ltd[6] | 100 | 100 |
| Australia Post Transaction Services Pty Ltd[2] | 100 | 100 |
| Australian Express Transport Pty. Limited[1] | 100 | 100 |
| Australian Express Freight Pty. Limited[1] | 100 | 100 |
| AUX Investments Pty Ltd[4] | 100 | 100 |
| corProcure Pty Ltd[1] | 100 | 100 |
| Decipha Pty Ltd[4] | 100 | 100 |
| Discount Freight Express Pty Limited[1] | 100 | 100 |
| DFE Pty Limited[1, 8] | 75 | 100 |
| DFE Transport Pty Ltd[1] | 100 | 100 |
| Geospend Pty. Ltd.[1] | 100 | 100 |
| Lakewood Logistics Pty Ltd[1] | 100 | 100 |
| Mail Plus Pty Ltd[1, 8] | 75 | - |
| Mardarne Pty. Ltd.[1] | 100 | 100 |
| MP Rights Pty Ltd[1, 8] | 75 | - |
| Multigroup Distribution Services Pty Limited[1] | 100 | 100 |
| Our Neighbourhood Pty. Ltd.[1] | 100 | 100 |
| Our Neighbourhood Trust[7] | 100 | 100 |
| POLi Payments Pty Ltd[1] | 100 | 100 |
| Post Fulfilment Online Pty Ltd[1] | 100 | 100 |
| Post Logistics Australasia Pty Ltd[1] | 100 | 100 |
| Postcorp Developments Pty Ltd[1] | 100 | 100 |
| Postlogistics (Hong Kong) Pte Limited[3] | 100 | 100 |
| SB Parcels Pty Ltd[1] | 100 | - |
| SecurePay Holdings Pty Ltd[4] | 100 | 100 |
| SecurePay Pty. Ltd.[4] | 100 | 100 |
| Sprintpak Pty. Ltd.[1] | 100 | 100 |
| ST Couriers Holdings Pty Ltd[1] | 100 | - |
| Star Track Couriers Pty Limited[1] | 100 | 100 |
| Star Track Express Holdings Pty Limited[4] | 100 | 100 |
| Star Track Express Investments Pty Limited[4] | 100 | 100 |
| Star Track Express Pty Limited[4] | 100 | 100 |
| Star Track Pty Limited[1] | 100 | 100 |
| StarTrack Retail Pty Ltd[4] | 100 | 100 |
| Star Track Special Services Pty Limited[1] | 100 | 100 |
| STI Co (Aust) Pty Ltd[1] | 100 | – |

1 Small proprietary entity not required to prepare and lodge audited financial statements with Australian Securities and Investments Commission (ASIC).
2 Large proprietary company required to prepare and lodge audited financial statements with ASIC.
3 Entity incorporated in Hong Kong and not audited by the Australian National Audit Office.
4 Large proprietary company and has entered into a deed of cross guarantee with Australia Post Transaction Services Pty Ltd as the holding entity. Therefore, this entity is not required to prepare and lodge audited financial statements with ASIC in accordance with the relief provisions set out in Class Order 98/1418.
5 Entity limited by guarantee required to prepare audited financial statements in accordance with the company's constitution. Australia Post controls the voting rights and has exposure to variability in returns and therefore consolidates this entity.
6 Small proprietary entity which holds an Australian Financial Services Licence and is required to prepare and lodge audited financial statements with ASIC.
7 Not-for-profit entity required to prepare and lodge audited financial statements with the Australian Charities and Not-for-profits Commission.
8 Entity required to prepare audited financial statements in accordance with the requirements of the DFE Pty Limited Shareholders Agreement.
9 Incorporated limited partnership governed by a deed required to prepare audited financial statements.
10 Small proprietary entity not required to prepare and lodge audited financial statements with ASIC. Entity has entered into a deed of cross guarantee with Australia Post Transaction Services Pty Ltd as the holding entity.

## E2 LEASES

### Recognition and measurement

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at the date of inception. It also requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement. The Group is party to both finance leases and operating leases. A finance lease transfers substantially all the risks and benefits incidental to ownership of the leased item, whereas an operating lease does not transfer substantially all these risks and benefits.

Below outlines the leases that the Group is party to where the underlying leased assets are not on the consolidated balance sheet.

**Finance leases for assets the Group leases to extenal parties**

The Group has a finance lease receivable relating to the disposal in 1996–97 of the Sydney GPO heritage site under a 99-year lease. The agreement included a seven-year rent-free period to the lessee, followed by a guaranteed minimum rental.

The reconciliation of minimum lease payments to lease receivable is as follows:

| Consolidated ($m) | 2016 | 2015 |
|---|---|---|
| Gross minimum finance lease rentals receivable | 523.3 | 529.8 |
| Finance lease revenue not yet recognised | (420.1) | (426.5) |
| **Total** | **103.2** | **103.3** |
| Minimum finance lease rentals receivable: | | |
| – within 1 year | 6.5 | 6.5 |
| – from 1 year to 5 years | 26.0 | 26.0 |
| – over 5 years | 490.8 | 497.3 |
| **Total** | **523.3** | **529.8** |
| Finance lease receivable[1] | 103.2 | 103.3 |
| • Current | 6.5 | 6.5 |
| • Non Current | 96.7 | 96.8 |

1 The lease commitments receivable at year-end equals the minimum lease payments, as there are no material contingent payments or unguaranteed residual value relating to this lease agreement.

**Operating leases for assets the Group leases to external parties**

The Group leases or sub-leases a total of 245 sites to external parties. These are under operating leases with various occupancy terms that are due to expire in the next 1 to 22 years. The leased property portfolio comprises 27 commercial, 41 industrial, 158 retail and 19 general sites.

Lease payments receivable generally comprise a base amount plus an incremental contingent rental based on movements in the Consumer Price Index and reviews to market-based levels.

The future aggregate minimum lease payments receivable under non-cancellable operating leases are as follows:

| Consolidated ($m) | 2016 | 2015 |
|---|---|---|
| – within 1 year | 35.3 | 37.4 |
| – from 1 year to 5 years | 80.9 | 93.0 |
| – over 5 years | 51.9 | 42.1 |
| **Total** | **168.1** | **172.5** |

**Operating leases for assets the Group leases from external parties**

The Group leases a total of 993 sites. These are under operating leases with various occupancy terms that are due to expire in the next 1 to 16 years. The leased property portfolio comprises 174 commercial, 303 industrial, 7 residential, 504 retail and 5 general sites.

Leases generally provide the Group with a right of renewal, at which time the commercial terms are renegotiated. Lease payments generally comprise a base amount plus an incremental contingent rental based on movements in the Consumer Price Index and reviews to market-based levels.

| Consolidated ($m) | 2016 | 2015 |
|---|---|---|
| Minimum lease payments | 196.2 | 205.6 |
| Contingent rentals | 0.8 | 0.9 |
| **Operating lease rentals** | **197.0** | **206.5** |

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| Consolidated ($m) | 2016 | 2015 |
|---|---|---|
| – within 1 year | 167.5 | 167.2 |
| – from 1 year to 5 years | 378.9 | 402.3 |
| – over 5 years | 183.3 | 212.4 |
| **Total** | **729.7** | **781.9** |

## E3 AUSTRALIAN POSTAL CORPORATION

| Corporation ($m) | 2016 | 2015 |
|---|---|---|
| Current assets | 1,360.4 | 1,101.2 |
| Total assets | 4,920.9 | 4,937.0 |
| Current liabilities | 2,087.3 | 1,621.5 |
| Total liabilities | 3,105.9 | 3,038.6 |
| Contributed equity | 400.0 | 400.0 |
| Retained profits | 1,397.6 | 1,491.9 |
| Asset revaluation reserve | 11.1 | 7.5 |
| Hedging reserve | 6.3 | (1.0) |
| **Net equity** | **1,815.0** | **1,898.4** |
| Net profit/(loss) of the parent entity | 26.6 | (153.8) |
| Total comprehensive income of the parent entity | (120.9) | 371.8 |

Australian Postal Corporation, which is the Group's ultimate parent and controlling entity of the Australian Postal Corporation Group, also has:

- contingent liabilities which relate to legal liability claims that have been lodged against the corporation, including motor vehicle accident and personal injury claims in the amount of $2.5 million (2015: $2.5 million);
- issued bank guarantees amounting to $160.5 million (2015: $150.3 million) which represent guarantees supporting workers compensation self-insurance licences in various jurisdictions;
- contractual obligations which relate to sub-lease rent receivables and operating lease receivables in the amount of $168.1 million (2015: $172.6 million). Capital commitments of the parent entity in relation to land and buildings and plant and equipment amount to $109.1 million (2015: $148.4 million); and
- operating lease commitments of $620.8 million (2015: $629.9 million).

## E4 AUDITORS' REMUNERATION

The corporation's auditor is the Australian National Audit Office who has retained Ernst & Young (Australia) to assist with the assignment.

Amounts received or due and receivable by the corporation's auditors for the following:

| Corporation ($m) | 2016 | 2015 |
|---|---|---|
| An audit or review of the financial report of the entity and any other entity in the consolidated entity | 1,749,000 | 1,655,000 |
| - assurance related | 300,000 | 195,000 |
| - special audits required by regulators[1] | – | 103,000 |
| - other non-audit related[1] | 583,500 | 236,200 |
| Total auditors' remuneration | 2,632,500 | 2,189,200 |

1 These services are performed by Ernst & Young (Australia) directly and include due diligence, governance, compliance and research services.

## E5 CONTINGENCIES

The Group has the following contingent assets and liabilities as at 30 June 2016. Due to the nature of the Group's contingent liabilities, the Group is not able to ascertain with any certainty the expected timing of any cash outflow that may arise, or the probability of reimbursement.

| | Guarantees | | Claims for damages or other costs | | Total | |
|---|---|---|---|---|---|---|
| Consolidated | 2016 ($m) | 2015 ($m) | 2016 ($m) | 2015 ($m) | 2016 ($m) | 2015 ($m) |
| Balance from previous period | 226.2 | 223.9 | 38.5 | 7.2 | 264.7 | 231.1 |
| New contingent liabilities recognised | 23.4 | 7.3 | 4.4 | 59.4 | 27.8 | 66.7 |
| Remeasurement | (13.0) | 6.6 | (0.7) | 3.1 | (13.7) | 9.7 |
| Liabilities realised | – | – | (4.5) | (24.9) | (4.5) | (24.9) |
| Obligations expired | (4.2) | (11.6) | (35.3) | (6.3) | (39.5) | (17.9) |
| **Total contingent liabilities** | **232.4** | **226.2** | **2.4** | **38.5** | **234.8** | **264.7** |
| Balance from previous period | 9.3 | 9.2 | – | – | 9.3 | 9.2 |
| New contingent assets recognised | – | 0.7 | – | – | – | 0.7 |
| Assets realised | – | – | – | – | – | – |
| Obligations expired | (1.3) | (0.6) | – | – | (1.3) | (0.6) |
| **Total contingent assets** | **8.0** | **9.3** | **–** | **–** | **8.0** | **9.3** |
| **Net contingent liabilities** | **224.4** | **216.9** | **2.4** | **38.5** | **226.8** | **255.4** |

## Recognition and measurement

Contingent liabilities and contingent assets arise when:

- there is sufficient uncertainty as to the existence of a liability or asset; or
- there is an existing liability or asset where settlement is not probable; or
- the amount of a liability or asset cannot be reliably measured.

They are not recognised in the balance sheet but are reported in the relevant schedules and notes. Contingent assets are disclosed when settlement is probable, and contingent liabilities are disclosed when settlement is considered remote.

### Guarantees

Guarantees relate to non-financial guarantees, including bank guarantees over projected workers' compensation claims liabilities arising from the Group's self-insurance of its liability for workers' compensation as a licence holder under the *Safety, Rehabilitation and Compensation Act 1988* (SRC Act).

### Claims for damages or other costs

These arise from legal liability claims that have been lodged against the corporation and subsidiaries, including motor vehicle accident and personal injury claims.

### Insurance

Generally, the corporation self-insures its own risks. However, with respect to catastrophic losses, appropriate insurance coverage for both the corporation and its subsidiaries has been arranged with general insurers. Payments received on account of losses in any year are recognised in other income or as an offset against cost incurred, as is appropriate. Insurance premiums are recognised in other expenses as incurred. Where appropriate, the subsidiaries insure their other risks with general insurers. At 30 June 2016, there was no material contingent liability with respect to the Group's self-insurance activities.

## E6 OTHER ACCOUNTING POLICIES

### a) Accounting for goods and services taxes

Revenues, expenditures and assets are recognised net of the amount of Goods and Services Tax (GST) except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- on receivables and payables, which are stated with the amount of GST included.

### b) Inventories

Inventories including raw materials, work in progress and finished goods are valued at the lower of cost and net realisable value. Initial cost of inventories also includes the transfer of gains and losses on qualifying cash flow hedges, recognised in other comprehensive income. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials – purchase cost on a first-in, first-out basis. The cost of purchase comprises the purchase price including import duties and other taxes (other than those subsequently recoverable by the Group from the taxation authorities), transport, handling and other costs directly attributable to the acquisition of raw materials. Volume discounts and rebates are included in determining the cost of purchase; and
- Finished goods and work-in-progress – cost of direct materials and labour and a proportion of variable and fixed overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Where this is lower than cost, inventory impairment is recognised.

### c) Current/Non-current classification

Assets are disclosed as current when they are expected to be converted to cash or receivable within 12 months of 30 June 2016. Liabilities are disclosed as current when they are due within 12 months of 30 June 2016 or when there is no unconditional right to defer settlement of the liability for at least 12 months after 30 June 2016.

### d) New and amended Australian Accounting Standards adopted by the Group

The Group has applied the following standards and amendments for the first time for the annual reporting period commencing 1 July 2015:

| Reference | Description |
|---|---|
| AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments | The standard makes amendments to a number of Standards and Interpretations arising from the issuance of AASB CF 2013-1 and the deletion of references to AASB 1031 Materiality and also makes minor editorial amendments to various other standards. There were also amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 Hedge Accounting into AASB 9 Financial Instruments. There were no material changes to the Group's financial statements from the initial application of this standard. |
| AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality | The standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards. There were no material changes to the Group's financial statements from the initial application of this standard. |

## E6 OTHER ACCOUNTING POLICIES (CONTINUED)

### e) New and amended Australian Accounting Standards not yet adopted

The following standards, amendments to standards and interpretations are relevant to current operations but have not been applied by the Group in this financial report.

| Reference | Nature of change to accounting policy | Application date of standard | Application date for Group |
|---|---|---|---|
| AASB 9 Financial Instruments | Amendments to AASB 9 included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. Management is yet to complete its assessment of the likely impact on the Group's financial statements. | 1 January 2018 | 1 July 2018 |
| AASB 2014-3 Amendments to Accounting for Acquisitions of Interests in Joint Operations | AASB 2014-3 amends AASB 11 Joint Arrangements to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. These amendments are not expected to have any material impact on the Group's financial statements. | 1 January 2016 | 1 July 2016 |
| AASB 2014-4 Clarification of Acceptable Methods of Depreciation and Amortisation | AASB 116 Property Plant and Equipment and AASB 138 Intangible Assets both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an assets. These amendments are not expected to have any material impact on the Group's financial statements. | 1 January 2016 | 1 July 2016 |
| AASB 15 Revenue from Contracts with Customers | AASB 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Management is yet to complete its assessment of the likely impact on the Group's financial statements. | 1 January 2018 | 1 July 2018 |
| AASB 1057 Application of Australian Accounting Standards | This standard lists the application paragraphs for each other standard (and interpretation), grouped where they are the same. These amendments are not expected to have any material impact on the Group's financial statements. | 1 January 2016 | 1 July 2016 |
| AASB 2014-9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements | AASB 2014-9 amends AASB 127 Separate Financial Statements, and consequentially amends AASB 1 First-time Adoption of Australian Accounting Standards and AASB 128 Investments in Associates and Joint Ventures, to allow entities to use the equity method of accounting for investments in subsidiaries, joint ventures and associates in their separate financial statements. These amendments are not expected to have any material impact on the Group's financial statements. | 1 January 2016 | 1 July 2016 |

| Reference | Nature of change to accounting policy | Application date of standard | Application date for Group |
|---|---|---|---|
| AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | The amendments require: (a) a full gain or loss to be recognised when a transaction involves a business (whether it is housed in a subsidiary or not); and (b) a partial gain or loss to be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. Management is yet to complete its assessment of the likely impact on the Group's financial statements. | 1 January 2018 | 1 July 2018 |
| AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle | The amendment makes changes to a number of accounting policies including the methods of disposal in AASB 5 Non-current Assets Held for Sale and Discontinued Operations, disclosure requirements in AASB 7 Financial Instruments: Disclosures and AASB 134 Interim Financial Reporting and clarification of discount rates utilised in AASB 119 Employee Benefits. | 1 January 2016 | 1 July 2016 |
| AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 | The standard makes amendments to AASB 101 Presentation of Financial Statements arising from the IASB's Disclosure Initiative project. | 1 January 2016 | 1 July 2016 |
| AASB 2015-5 Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception | This makes amendments to AASB 10, AASB 12 Disclosure of Interests in Other Entities and AASB 128 arising from the IASB's narrow scope amendments associated with Investment Entities.<br>These amendments are not expected to have any material impact on the Group's financial statements. | 1 January 2016 | 1 July 2016 |
| AASB 2015-9 Amendments to Australian Accounting Standards – Scope and Application Paragraphs | This standard inserts scope paragraphs into AASB 8 and AASB 133 in place of application paragraph text in AASB 1057. This is to correct inadvertent removal of these paragraphs during editorial changes made in August 2015. There is no change to the requirements or the applicability of AASB 8 and AASB 133.<br>These amendments are not expected to have any material impact on the Group's financial statements. | 1 January 2016 | 1 July 2016 |

## E6 OTHER ACCOUNTING POLICIES (CONTINUED)

| Reference | Nature of change to accounting policy | Application date of standard | Application date for Group |
|---|---|---|---|
| AASB 16 Leases | AASB 16 will primarily affect the accounting by lessees and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for almost all lease contracts. The accounting by lessors, however, will not significantly change. The changes under AASB 16 are significant and will have a pervasive impact, particularly for lessees with operating leases. Management is yet to complete its assessment of the likely impact on the Group's financial statements. | 1 January 2019 | 1 July 2019 |
| 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses | This standard amends AASB 112 Income Taxes (July 2004) and AASB 112 Income Taxes (August 2015) to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.<br>These amendments are not expected to have any material impact on the Group's financial statements. | 1 January 2017 | 1 July 2017 |
| 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107 | This standard amends AASB 107 Statement of Cash Flows (August 2015) to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.<br>These amendments are not expected to have any material impact on the Group's financial statements. | 1 January 2017 | 1 July 2017 |

# Community service obligations

## for the year ended 30 June 2016

Australia Post's community service obligations (CSOs) are set out in s27 of the *Australian Postal Corporation Act 1989* (the Act) which requires that:

- the corporation provide a letter service for both domestic and international letter traffic;
- the service be available at a single uniform rate within Australia for standard letters;
- the service be reasonably accessible to all Australians wherever they reside; and
- the performance standards for the service reasonably meet the social, industrial and commercial needs of the community.

## Performance standards

Regulations made under s28C of the Act detail the particular standards required to meet these obligations. Performance against these standards is subject to independent audit by the Australian National Audit Office (ANAO).

All of the prescribed standards were met or exceeded in 2015/16. The actual result for each standard is outlined in the table below. The associated ANAO Audit Report is reproduced on pages 46 to 47.

## Organisational arrangements

The ongoing focus on CSO compliance is maintained by Australia Post's Head of Board & Shareholder Liaison in its headquarters and nominated CSO representatives nationally.

## CSO costs

There is a financial cost associated with meeting CSOs. That cost arises when the charge made for any mandated service does not recover the cost of its delivery. The cost is measured on a net basis (that is, after reduction of related revenue).

For 2015/16 (calculated on the avoidable cost methodology), CSO costs are estimated to be $182.5 million.

| Performance standard | | | 2015/16 performance |
|---|---|---|---|
| **Lodgement** | | | |
| 10,000 street posting boxes | | | 15,357 |
| **Delivery timetables** | | | |
| | **PRIORITY** | **REGULAR** | |
| **Delivery within a State** | | | |
| Metro to metro | next business day | 3 business days | Maintained |
| Same/adjacent country to country | next business day | 3 business days | Maintained |
| All else | 2 business days | 4 business days | Maintained |
| **Delivery between States** | | | |
| Metro to metro | 2 business days | 5 business days | Maintained |
| Country to metro | 3 business days | 6 business days | Maintained |
| Metro to country | 3 business days | 6 business days | Maintained |
| Between country areas | 4 business days | 7 business days | Maintained |
| **On-time delivery** | | | |
| 94.0% of reserved services letters | | | 96.2% |
| **Access** | | | |
| 4,000 retail outlets (2,500 in rural and remote areas) | | | 4,392 (2,551 in rural and remote areas) |
| Retail outlets located so that: | | | |
| - in metropolitan areas at least 90% of residences are within 2.5km of an outlet | | | 93.6% |
| - in non-metropolitan areas at least 85% of residences are within 7.5km of an outlet | | | 88.8% |
| **Delivery frequency** | | | |
| - 98.0% of delivery points to receive deliveries five days a week | | | 98.8% |
| - 99.7% of delivery points to receive deliveries no less than twice a week | | | 99.9% |

# Auditor General's Report Performance Standards

Auditor-General for Australia


**INDEPENDENT AUDITOR'S COMPLIANCE REPORT**

**To the Minister for Communications**

**Report on the extent to which the Australian Postal Corporation has compiled with the *Australian Postal Corporation (Performance Standards) Regulations 1998* for the year ended 30 June 2016**

I have audited the Australian Postal Corporation's compliance with the Prescribed Performance Standards of the *Australian Postal Corporation (Performance Standards) Regulations 1998* which are made under the *Australian Postal Corporation Act 1989* for the year ended 30 June 2016.

The Prescribed Performance Standards require the Australian Postal Corporation to:

(a) service 98% of all postal delivery points daily (except on a Saturday, a Sunday or a public holiday) and 99.7% of all postal delivery points at least two days each week (Regulation 5);

(b) deliver at least 94% of reserved services letters to the indicated or appropriate address within the delivery time mentioned for the address according to the prescribed timetable (Regulation 6);

(c) maintain mail lodgement points in Australia for the lodgement of postal articles (other than bulk mail) at each of its retail outlets and maintain at least 10,000 street posting boxes (Regulation 8); and

(d) maintain at least 4,000 retail outlets at which products and services can be purchased; locate at least 50% of the retail outlets in zones classified as rural or remote, and in any event, not fewer than 2,500 retail outlets; locate a retail outlet in a metropolitan area such that at least 90% of residences are within 2.5 kilometres of a retail outlet; and locate a retail outlet in a non-metropolitan zone such that at least 85% of residences are within 7.5 kilometres of a retail outlet (Regulation 9).

***Conclusion***

In my opinion, the Australian Postal Corporation has, in all material respects, complied with the Prescribed Performance Standards prescribed in the *Australian Postal Corporation (Performance Standards) Regulations 1998* for the year ended 30 June 2016.

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***Respective Responsibilities***

The directors of the Australian Postal Corporation are responsible for compliance with the Prescribed Performance Standards.

My responsibility is to express a conclusion on compliance with the Prescribed Performance Standards by the Australian Postal Corporation, in all material respects. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the applicable Standard on Assurance Engagements ASAE 3100 *Compliance Engagements,* to provide reasonable assurance that the Australian Postal Corporation has complied with the Prescribed Performance Standards. Accordingly, I have performed such tests and procedures as considered necessary in the circumstances. My procedures included obtaining an understanding of the compliance measures and examining, on a test basis, evidence supporting the operation of these compliance measures. These procedures have been undertaken to form a conclusion whether, in all material aspects, the Australian Postal Corporation has complied with the Prescribed Performance Standards during the year ended 30 June 2016.

***Inherent Limitations***

Because of the inherent limitations of any compliance audit, it is possible that fraud, error or non-compliance may occur and not be detected. An audit is not designed to detect all instances of non-compliance with the Prescribed Performance Standards, as an audit is not performed continuously throughout the year and the audit procedures performed in respect of compliance with the Prescribed Performance Standards are undertaken on a test basis. The audit conclusion expressed in this report has been formed on the above basis.

***Independence***

In conducting my audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

Australian National Audit Office

Grant Hehir
Auditor-General

Canberra
25 August 2016

# Domestic Letter Service Monitor (TNS)

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July 22, 2016

To The Board of the Australian Postal Corporation

**Re: Yearly Basic Monitor Result Certification**

We have undertaken an independent monitor of Australia Post's domestic letter service against its delivery undertakings for the year ended June 2016 in accordance with the requirements of the Australian Postal Corporations Act 1989.

Our monitor was based on a properly prepared, statistically valid sample of approximately 369,756 test letters. The sample size was determined with regard to information that Australia Post supplied about the postal network design parameters.

Our testing involves comparing the delivery time taken for each test letter with Australia Post's delivery undertaking for the mail path concerned.

Test letters represented the full range of letter sizes and types recognised as ordinary mail, posted in locations having a daily clearance to locations having a daily delivery, from small to large and including window-faced envelopes. They were addressed by hand and machine fonts, reflecting the varied mailing practices of postal users.

All addressing was in accordance with Australia Post's specifications for the proper preparation of letter mail. The letters, as specified under the terms of our contract, were indistinguishable from other mail flowing through the Australia Post network.

Our process for calculating the delivery performance was independently audited by Deloitte.

For the year ending June 2016 the sample used by TNS Australia was consistent with the sample frame provided by Australia Post. The attached certification from Deloitte states that "nothing has come to our attention that would suggest that the results reported by TNS Australia for the year ended 30/06/2016 have not been calculated in accordance with the agreed business rules or do not fairly represent the performance of Australia Post's basic letter service for that period."

Results

For the year ended June 2016, the monitor showed that Australia Post delivered 96.2 per cent of all letters early or on time, and 99.0 per cent of letters were delivered on time or not more than one working day after your delivery undertakings.

**Opinion**

In our opinion based upon the audit procedures conducted, at a 95 per cent confidence level and with a maximum weighted actual precision limit of 0.1 per cent, these results present fairly the performance of Australia Post's domestic letter service for the year ended June 2016 against the scope provided.

Yours faithfully,

Tania Kullmann
Managing Director
TNS Australia Pty Ltd

Margaret Persico
Director
TNS Australia Pty Ltd

# Survey certification

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21 July 2016

**Independent Assurance Report on TNS Australia calculation of Australia Post Performance Metric for Basic Letters for the period 01 July 2015 to 30 June 2016**

TNS Australia perform an external mail monitoring service covering basic (domestic) letters carried across the Australia Post Network for Australia Post within a defined set of parameters that have been agreed between Australia Post and TNS Australia.

**TNS Australia's Responsibilities**

The management of TNS Australia is responsible for the calculation and delivery of the performance metrics to Australia Post in accordance with the agreed business rules. This responsibility includes the design and operation of controls intended to monitor the accuracy of the calculation of the performance metrics.

**Deloitte's Responsibilities**

At the request of TNS Australia, Deloitte has re-performed the calculation of the delivery performance metric using the data output from the Computer Information System (CIS) in order to express a conclusion on whether, based on the work we have performed, anything comes to our attention to indicate that the calculations performed by TNS Australia have not, in all material respects, been calculated in accordance with the business rules set out in the agreement between TNS Australia and Australia Post dated 21 August 2015 and do not fairly represent the performance of Australia Post's basic letter service.

Our procedures were performed in accordance with Australian Standard on Assurance Engagements ASAE 3000, "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" in order to provide limited assurance as defined by that standard. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with ASAE 3000 and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an opinion providing reasonable assurance.

Considering the risk of material error, we planned and performed our procedures to obtain the information and explanations considered necessary to provide sufficient evidence to support our limited assurance conclusion. Key procedures included:

- Interviewing the process owners for the preparation of the Australia Post Performance Metrics
- An evaluation of the implementation of key controls used by management in the preparation of the Australia Post Performance Metrics

Deloitte.



- Independent re-performance of the calculation of the delivery performance metric using data extracted from the CIS system
- Choosing a random sample of invalidated ('dudded') transactions, and obtaining supporting evidence to identify for those transactions in the sample, whether the process (as agreed to between TNS Australia and Australia Post) for 'dudding' transactions was adhered to.

**Inherent Limitations**

Because of the inherent limitations of any internal control structure it is possible that fraud, error, or non-compliance with the agreed business rules may occur and not be detected. Further, the internal control structure, within which the processes that we have reviewed operate, has not been reviewed and no opinion is expressed as to its effectiveness.

A review is not designed to detect all weaknesses in control procedures as it is not performed continuously throughout the period and the tests performed are on a sample basis.

Any projection of the operation of the monitoring processes to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

The conclusion expressed in this report has been formed on the above basis.

**Independence**

We have complied with the independence and other relevant ethical requirements relating to assurance engagements, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

**Assurance Practitioner's Independence and Quality Control**

The firm applies Auditing Standard ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Use of report**

This report has been prepared for distribution to TNS Australia in terms of our engagement letter dated 21 August 2015. We understand that a copy of this report will be provided to Australia Post by TNS Australia. We disclaim any assumption of responsibility for any reliance on this report to Australia Post or to any other persons or users, other than TNS Australia, or for any purpose other than that for which it was prepared.

**Findings**

The table below compares the national average of the delivery performance metric as calculated by TNS Australia and by Deloitte:

| Type of Letter | TNS Australia figure | Deloitte figure |
|---|---|---|
| Basic | 96.2% (±0.1) | 96.2% |

**Conclusion**

Based on the work performed, in all material respects, nothing has come to our attention that would suggest that the results reported by TNS Australia for the year ended 30 June 2016 have not been calculated in accordance with the agreed business rules or do not fairly represent the performance of Australia Post's basic letter service for that period.

Yours sincerely,

Kevin Nevrous
Partner
Deloitte Touche Tohmatsu

# Reserved/Non-reserved services

| | Reserved | | Non-reserved[1] | | Total | |
|---|---|---|---|---|---|---|
| **2016** | $m | % | $m | % | $m | % |
| Revenue | 1,937.3 | 29.6% | 4,618.7 | 70.4% | 6,556.0 | 100.0% |
| Expenditure | 1,951.6 | 30.1% | 4,534.7 | 69.9% | 6,486.3 | 100.0% |
| **Profit before interest & jointly controlled entities** | **(14.3)** | **(20.6%)** | **84.0** | **120.6%** | **69.7** | **100.0%** |
| Net interest | | | | | (28.4) | 100.0% |
| Share of jointly controlled entities profits | | | | | (0.3) | 100.0% |
| | | | | | **41.0** | |
| Income tax expense | | | | | (4.6) | |
| **Profit after income tax expense** | | | | | **36.4** | |

| | Reserved | | Non-reserved[1] | | Total | |
|---|---|---|---|---|---|---|
| **2015[1]** | $m | % | $m | % | $m | % |
| Revenue | 1,737.3 | 27.3% | 4,631.2 | 72.7% | 6,368.5 | 100.0% |
| Expenditure | 2,020.7 | 30.2% | 4,674.1 | 69.8% | 6,694.8 | 100.0% |
| **Profit/(loss) before interest & jointly controlled entities** | **(283.4)** | **86.9%** | **(42.9)** | **13.1%** | **(326.3)** | **100.0%** |
| Net interest | | | | | (26.0) | 100.0% |
| Share of jointly controlled entities profits | | | | | 0.2 | 100.0% |
| | | | | | **(352.1)** | |
| Income tax benefit/(expense) | | | | | 130.4 | |
| **Profit/(loss) after income tax expense** | | | | | **(221.7)** | |

1 2015 expenditure within the non-reserved services includes the impacts of asset write-offs and impairments as well as a portion of letter restructuring costs associated with our reform program and an update top our cost methodology.

# Statutory reporting requirements index

## for the year ended 30 June 2015

This Australia Post Annual Report is compliant with the reporting requirements of, and contains information required to be included by, the Public Governance, *Performance and Accountability Act 2013*, the *Australian Postal Corporation Act 1989*, and other applicable legislation. To assist readers to locate information in this Annual Report that is required to be included by legislation, the following index identifies where relevant information can be found in this Annual Report. Index references are included in Annual Report Sections "Part of Tomorrow" ("PT"), or "Financial and statutory reports" ("Fin").

| Section | Subject | Pages |
|---|---|---|
| **Australian Postal Corporation Act 1989 – general reporting requirements** | | |
| s43(1)(a) | Statement of corporate objectives under the corporate plan | Fin 3 |
| s43(1)(b)(i) | Overall strategies and policies under the corporate plan | Fin 3 |
| s43(1)(b)(ii) | Performance indicators and targets under the corporate plan | Fin 3 |
| s43(1)(c) | Assessment of extent to which objectives under s43(a) have been achieved | Fin 3 |
| s43(1)(d) | Strategies and policies relating to Community Service Obligations (CSOs) | PT IC, 1, 19; Fin 45 |
| s43(1)(e) | Directions by the Minister under s40(1)(CSOs) | N/A |
| s43(1)(f) | Assessment of appropriateness and adequacy of strategies and policies for CSOs | Fin 45 |
| s43(1)(fa) | Performance standards relating to CSOs | Fin 45 |
| s43(1)(g)(i) | Notifications by the Minister under s22 of the PGPA Act | Fin 56 |
| s43(1)(g)(ii) | Directions by the Minister under s49 of the APC Act | N/A |
| s43(1)(h)(i) | Impact of Ministerial notifications under s22 of the PGPA Act and directions under s49 of the APC Act | Fin 56 |
| s.43(1)(h)(ii) | Impact of other Government obligations | Fin 56-57 |
| s43(1)(j) | Ministerial power under s33(3) to disapprove postage determinations | N/A |
| s43(1)(k) | Companies and other associations established or sold | Fin 37 |
| s43(1)(m)(i)&(ii) | Shares purchased and disposed of | Fin 37 |
| s43(1)(m)(iii) | Subsidiaries | Fin 37 |
| s43(1)(n) | Authority to open or examine the contents of postal articles | Fin 58 |
| s43(1)(o) | Disclosure of information | Fin 58-60 |
| s44(1)(a) | Financial targets | Fin 3 |
| s44(1)(b) | Ministerial direction under s40(i) to vary the financial targets | N/A |
| s44(1)(c) | Progress in achieving the financial targets | Fin 3 |
| s44(1)(d) | Dividend payable to the Commonwealth | PT 7, 10-11; Fin 3, 18, 61 |
| s44(1)(e) | Ministerial direction under s54(3) as to dividend | N/A |
| s44(1)(f) | Capital repaid to the Commonwealth | N/A |
| s44(1)(g)(i) | Cost impact of CSOs | Fin 45 |
| s44(1)(g)(ii) | Cost impact of Ministerial notifications under s22 of PGPA Act | N/A |
| s44(1)(g)(iii) | Cost impact of Ministerial directions under s49 of APC Act | N/A |
| s44(1)(g)(iv) | Cost impact of other Government obligations | Fin 56 |
| s44(1)(h)(i)&(ii) | Financial information requested by the Minister in relation to the reserved services and other activities | PT 58-59 |

| Section | Subject | Pages |
|---|---|---|
| **Work Health and Safety Act 2011 – reporting requirements** | | |
| Sch.2,s4(2)(a) | Health, safety and welfare initiatives | Fin 56-57 |
| Sch.2,s4(2)(b) | Health and Safety Outcomes | Fin 56-57 |
| Sch.2,s4(2)(c) | Statistics requiring the giving of notice | Fin 56-57 |
| Sch.2,s4(2)(d)&(e) | Details of investigations and other matters as prescribed | Fin 56-57 |
| **Superannuation Benefits (Supervisory Mechanisms) Act 1990** | | |
| s6(1)(b) | Report on operation of superannuation arrangement | Fin 56 |
| **Environment Protection and Biodiversity Conservation Act 1999** | | |
| s516A(6)(a)&(b) | Report on the compliance with and contribution to the principles of ecologically sustainable development | PT 44-47, 50; Fin 62 |
| s516A(6)(c) | Effect of activities on environment | PT 44-47, 50; Fin 62 |
| s516A(6)(d) | Measures taken to minimise environmental impact | PT 44-47, 50; Fin 62 |
| s516A(6)(e) | Mechanisms for reviewing and increasing the effectiveness of measures | PT 44-47, 50; Fin 62 |
| **Public Governance, Performance and Accountability Rule 2014** | | |
| s17BB(c) | Approval of Annual Report by Accountable Authority | Fin 2 |
| s17BB(d) | s46 Compliance Statement | Fin 2 |
| s17BE(a) | Enabling Legislation | Fin 10, 56 |
| s17BE(b)(i) | Objects and functions of the entity | Fin 10, 56 |
| s17BE(b)(ii) | Purposes of the entity as included in the entity's corporate plan | Fin 3 |
| s17BE(c) | Ministers responsible | Fin 56 |

| Section | Subject | Pages |
|---|---|---|
| s17BE(d) | Any directions given to the entity by a Minister under an Act or instrument | Fin 56 |
| s17BE(e) | Any government policy orders that applied under section 22 of the Act | Fin 56 |
| s17BE(f) | Non-compliance with a direction or order referred to in paragraph (d) or (e) | N/A |
| s17BE(g) | Annual Performance Statement | Fin 3 |
| s17BE(h) | Non compliance with the finance law under section 19(1)(e) of the Act | N/A |
| s17BE(i) | Actions taken to remedy the non compliance under s17BE(h) | N/A |
| s17BE(j) | Details of the Accountable Authority and each member | PT 8-9 |
| s17BE(k) | Organisational Structure (including subsidiaries) | Fin 37, 60 |
| S17BE(l) | Location of major activities or facilities | Fin 13, 61 |
| s17BE(m) | Corporate governance statement | PT 53-63 |
| s17BE(n) | Related entity transactions | Fin 14 |
| s17BE(o) | Details of related entity transactions | Fin 14 |
| s17BE(p) | Significant activities and changes affecting the operations or structure | PT 14 |
| s17BE(q) | Judicial decisions or decisions of administrative tribunals | N/A |
| s17BE(r) | Reports made by outside bodies | N/A |
| s17BE(s) | Obtaining information from subsidiaries | N/A |
| s17BE(t) | Indemnity and insurance premiums for officers | Fin 56 |
| s17BE(u) | Index of annual report requirements | Fin 53-55 |
| s17BF(1)(a)(i) | Significant changes in financial structure | N/A |
| s17BF(1)(a)(ii) | Events that may affect future operating results | N/A |
| s17BF(1)(b) | Dividends paid or recommended | PT 11; Fin 3, 18, 61 |
| s17BF(1)(c) | Community service obligations | PT IC, 1, 7, 19; Fin 3, 45, 61 |

# Statutory reporting requirements

for the year ended 30 June 2016

## Introduction

**Australia Post is subject to various statutory reporting requirements under the *Public Governance, Performance and Accountability Act 2013*, the *Australian Postal Corporation Act 1989*, the Work Health and Safety Act 2011, the *Superannuation Benefits (Supervisory Mechanisms) Act 1990*, and the *Environment Protection and Biodiversity Conservation Act 1999*.**

**The index on pages 53 to 55 shows where the relevant information can be found in this annual report.**

**A number of matters are dealt with in the main body of the report. Others are covered below.**

## Legislation

The powers and functions of Australia Post are set out in sections 14-19 of the *Australian Postal Corporation Act 1989* (the Act).

## Shareholder Ministers

As Minister for Communications, from September 2016 Senator the Hon. Mitch Fifield has portfolio responsibility for Australia Post (previously Malcolm Turnbull MP). Under a dual shareholder model, overall responsibility for the enterprise is exercised jointly with the Minister for Finance, Senator the Hon. Mathias Cormann.

## Indemnities and insurance premiums for directors and officers

Australia Post has in place a directors' and officers' liability insurance policy. The policy provides cover in respect of any person who is or was a director or officer of Australia Post, when acting in these capacities. Confidentiality requirements within the insurance contracts prohibit any additional disclosures.

Directors of Australia Post are also indemnified by the corporation to the extent permitted by law against any liability incurred in their capacity as a director.

## Government policies

In February 2004, the Minister of Communications, Information Technology and the Arts provided formal notification under section 28 of the *Commonwealth Authorities and Companies Act 1997*, that the government's National Code for the Construction Industry and associated implementation guidelines were to apply to all construction-related activity undertaken by and on behalf of Australia Post. The notification has had no major impact on the corporation as Australia Post had, since their introduction in 1997, made compliance with the code and guidelines a condition of all of its construction-related tenders.

Section 49 of the *Australian Postal Corporation Act 1989* empowers the Minister to give the Board written directions in relation to the performance of Australia Post's functions as appear to be necessary in the public interest. No notification or direction has been issued under this provision.

There have been no instances of non-compliance with any direction or order referred to above.

## Other government obligations

### Administrative Law

The cost of meeting Commonwealth administrative requirements in 2015/16 is estimated at approximately $1.5 million.

### Postal Industry Ombudsman (PIO)

During 2015/16 the PIO has estimated the costs of investigating complaints relating to Australia Post to be $550,000.

### ACCC record keeping

The cost of the regulatory audit and compliance with the ACCC's record-keeping rules in 2015/16 is estimated at $500,000.

### Maintaining heritage properties

The cost of repairing and maintaining heritage-listed properties in 2015/16 was $3.1 million.

### Medical/Educational Remote Area Parcel service

The Medical/Educational Remote Area Parcel service provides reduced postage rates for parcels containing health and educational material that are sent to and from people living in remote communities. In the 2015/16 reporting period, revenue foregone is estimated at $62,000.

### Superannuation

All Australia Post employees are provided superannuation benefits of at least the minimum required by law.

From 1 January 2012, Australia Post ceased to offer membership of the Australia Post Superannuation Scheme, which pays a lump sum defined benefit, to new employees engaged under a management contract of employment. From 1 July 2012, this decision was extended to all new employees. New employees may instead join a new default defined contribution superannuation fund, the Australia Post Superannuation Plan, or nominate a complying superannuation fund of their choice.

### Work Health and Safety (WHS) report

The following information is presented in accordance with the requirements of Schedule 2, Part 3 and Part 4 of the *Work Health and Safety Act 2011 (WHS Act 2011).*

The Enterprise Safety Strategy focuses on the key safety and health risks to the business, being workers health and well-being (health and fitness or preparedness for work), elimination of harm and care for people who may have been injured at work.

In September 2015 we refreshed a set of shared values which included five values. "Being Safe Everywhere" is a core value for Australia Post as we continue our journey towards zero injuries and zero tolerance of unsafe acts in our workplaces.

During the year, Australia Post undertook the following activities aimed at reducing the incidence of work-related injuries and illnesses and complying with WHS regulatory requirements. These included:

- continuing to implement our Health and Safety strategy, focusing on five priorities that underpin our safety program of work:
  - lead and empower our people to live safely;
  - develop and enhance safety systems that support the safety culture we are aiming to create;
  - develop a continuous learning approach to increase injury prevention;
  - increase the visibility and relevance of our safety performance; and
  - encourage and support our people to care for their health and wellbeing both physically and psychologically;
- implementing leading indicators as KPIs to drive senior leader participation in addressing safety challenges and to increase the focus on preventative safety measures;
- convening the Enterprise Safety Council to provide leadership and direction on safety issues and activity across the enterprise, including decision-making rights that may impact operational decisions and activity;
- continuing the roll-out of the Safety Leadership cultural transformation initiative to over 3,000 operational leaders and supervisors;
- hosting a world leader in safety culture, who toured nationally and spoke to over 1,000 leaders across the Enterprise. His message increased the focus on exposure as well as transformational leadership and valuing safety;
- implementing a "Being Safe Everywhere" activity during our annual "Safety Time" stop work in October;
- progressing the Australia Post Group Work Health and Safety Management System through development, consultation and implementation of integrated procedures and processes;
- hosting a WHS education day for the SRC licensee association with topics including safety innovation, contractor safety and mental health;
- conducting national vertical slice WHS audits, along functional lines for seven audit sites in accordance with the corporation's WHS Management System Quality Assurance (WHSMS QA) Program;
- engaging an independent auditor to conduct Australia Post's national WHSMS QA Program audits in 2015/16;
- delivering a calendar of events as part of our Be Well, Be Healthy, Be Happy health and wellbeing program to all employees, including access to an online self-assessment tool with over 3,500 responses, and developing a group of health and wellbeing champions;
- commencing a focus on mental health with mental health awareness training for HR professionals and operational managers. All staff also received information on mental health and a reminder about our employee assistance program;
- focusing on designing our health and safety issues as we upgrade our equipment and facilities;
- conducting a safety strategy day involving over 70 senior leaders across the business;
- commencing work on a group of life-saving rules;
- continuing work on contractor safety with a focus on mail and parcel delivery contractors;
- focusing safety observations on load-shifting equipment, manual handling and motorcycle riding; and
- delivering an external communication campaign "bubble wrap postie" to raise public awareness to prevent collisions with our postal delivery workers.

During the year:

- 55 incidents notified to Comcare under section 38
- 2 investigations/compliance inspections
- No seizures made under section 175 or 176
- No improvement notice issued under section 191
- No prohibition notices issued under section 195
- No non-disturbance notices issued under section 198
- No remedial action taken under section 211 or 212
- No written undertakings accepted by Comcare under section 216
- No applications for internal review made under section 224
- No applications for external review made under section 229
- No infringement notices given under section 243
- No prosecution instituted under the Act

There were 21 in-house HSR training courses run with a total of 213 HSR and Deputy HSR participants trained. Also eight HSR's attended the One Day Refresher course.

## Freedom of information report

In the year to 30 June 2016, Australia Post received 280 applications under the *Freedom of Information Act 1982*.

These were handled as follows:

| | |
|---|---|
| Granted in full | 103 |
| Granted in part | 62 |
| Access refused | 82 |
| Withdrawn | 22 |
| On hand at 30 June 2016 | 11 |

There were 17 applications for internal review received during the year.

No additional costs were incurred in the handling of Freedom of Information requests and related responsibilities in 2015/16.

**Categories of documents**

The categories of documents maintained by Australia Post include those relating to:

- corporate organisation and administration;
- Australia Post's financial management;
- management of assets;
- internal administration including policy development and program administration, reports, briefings, correspondence, minutes, submissions, statistics and other documents;
- Board submissions relating to the business of Australia Post;
- reference material used by staff including guidelines and manuals;
- working files;
- legal advice; and
- operational documents.

The categories of documents listed above are maintained by Australia Post in a variety of formats. Some of these documents, along with information on Australia Post's organisation, structure and activities, can be obtained free of charge by accessing Australia Post's website at *www.auspost.com.au.*

**Access to documents**

Access to documents under the Freedom of Information Act can be obtained by forwarding a written request to:

Freedom of Information Officer
Legal
Australia Post Headquarters
GPO Box 1777
MELBOURNE VIC 3001

**Privacy and access to personal information**

Under the *Privacy Act 1988* individuals have, subject to certain exceptions permitted by law, a right to request access to their personal information that is held by Commonwealth agencies and private-sector organisations.

Individuals may apply for access to their personal information held by Australia Post by writing to:

Privacy Manager
Risk & Compliance
Australia Post Headquarters
GPO Box 1777
MELBOURNE VIC 3001

**Fraud control**

Australia Post has in place an internal control framework which includes strategic, financial, operational and compliance elements designed to deter and detect instances of fraud. This framework is supported by a national Fraud and Corruption Policy and the corporation's Our Ethics policy.

The corporation's Assurance group comprises a number of specialist groups responsible for providing risk and compliance, audit, assurance, legal, and security and investigation services to Australia Post.

The Corporate Risk and Compliance group is responsible for an enterprise-wide approach to risk management, including identification, measurement and mitigation of business risks across all areas of the business. The framework and underpinning processes are consistent with the principles of the relevant standards.

The Internal Audit group applies a systematic risk-based, control and governance methodology to review business operations and related systems, including policies and procedures, which make up the control environment.

The Security group is a specialised internal group that provides security consultancy, crime analysis and investigative services to Australia Post. The Security group works closely with law enforcement agencies both within Australia and internationally. There are a number of programs in place to manage risk and compliance in specific areas, including fraud.

## Examination of mail

**International mail**

Australia Post is authorised under the Australia Postal Corporation Act to open mail, as required by the Australian Customs and Border Protection Services, in the following circumstances:

- when it is suspected that articles may contain prohibited substances; or
- to determine that appropriate duties/taxes are met.

Australian Customs and Border Protection Services personnel have also been authorised under section 90T of the Act to remove and open articles in excess of a particular weight which Customs reasonably believes may contain certain drugs or other chemical compounds being carried in contravention of a law of the Commonwealth. Customs has also been authorised under section 90FB (3) of the Act to act as an authorised examiner for the purpose of examining mail without opening. (i.e. by x-ray or with drug detection dogs).

**Domestic mail**

Biosecurity Inspection and Quarantine officers from a prescribed state or territory (i.e. Western Australia, Tasmania or Northern Territory) are authorised under section 90U of the Act to request Australia Post to open, for inspection, any article for delivery in that prescribed state or territory, where the inspection officer has reasonable grounds to believe the item consists of, or contains, quarantine material.

Section 90UA authorises Australia Post to remove articles from the mail stream where it is suspected that the article consist of, or contain scam mail. Suspected scam mail may also be withdrawn from the mail upon receipt of a written request from a consumer protection agency.

In accordance with section 90FB, Australia Post has appointed authorised examiners at designated locations where mail can be opened for inspection.

Authorised Australia Post staff may open undeliverable articles at approved locations for the purpose of identifying the intended recipient or return addresses. They may also open mail to repair an article or its contents so that the article can be made safe for carriage by post.

**Disclosure of information**

The corporation is authorised to disclose information to agencies which have the legislative power to obtain such information. This includes instances relating to enforcement of the criminal law, the protection of the public revenue, the reduction of threats to life and notification of next of kin.

As required under s.43 (o) (i) (ii) of the Act, Tables 1 and 2 overleaf, detail the number of times that such information was disclosed during the year and the authorities or bodies to which it was disclosed.

**Table 1. Disclosure of information/documents (section 90J "Authority")***
(Applies to all information or documents)

| Authority for disclosure | Number of disclosures | Disclosures made to |
|---|---|---|
| Disclosure under warrants [s. 90J(3)] | 23 | Australian Customs and Border Protection Services<br>Australian Taxation Office<br>Australian Crime Commission (NSW)<br>Police (TAS)<br>Australian Federal Police (Federal),<br>Police (QLD)<br>Police (VIC) |
| Disclosure under a law of the Commonwealth [s. 90J(5)] | 5,841 | Australian Commission for Law Enforcement Integrity<br>Australian Competition and Consumer Commission (Federal)<br>Australian Crime Commission (Federal)<br>Australian Customs and Border Protection Services<br>Australian Financial Security Authority (Federal)<br>Australian Taxation Office (Federal)<br>Centrelink (Federal)<br>Child Support Agency (Federal)<br>Department of Immigration and Border Protection (Federal)<br>Medicare |
| Disclosures under certain laws establishing commissions [s. 90J(6)] | 212 | Crime Commission (NSW),<br>Corruption and Crime Commission (WA) |

* There were no disclosures made under s. 90J (7) (8) or (9).

**Table 2. Disclosure of information/documents (section 90K "Authority") ***
(Applies to information or documents not specially protected)

| Authority for disclosure | Number of disclosures | Disclosures made to |
|---|---|---|
| Disclosure to authorised ASIO officer [s. 90K(4)] | 205 | Australian Security Intelligence Organisation (Federal) |
| Disclosure for the enforcement of laws or protection of public revenue [s. 90K(5)] | 6,777 | Australian Communications and Media Authority (Federal)<br>Australian Federal Police (Federal)<br>Consumer & Business Services (SA), Consumer Affairs Victoria (VIC),<br>Crime and Misconduct Commission (QLD)<br>Department of Agriculture<br>Department of Agriculture and Water Resources<br>Department of Commerce (WA), Department of Defence (Federal)<br>Department of Environment and Primary Industries (VIC)<br>Department of Environment and Heritage Protection<br>Department of Foreign Affairs and Trade (Federal)<br>Department of Sustainability, Environment, Water, Population and Communities (Federal)<br>Fair Trading (NSW)<br>Fair Work Ombudsman<br>Independent Broad-based Anti-Corruption Commission<br>Office of Environment and Heritage<br>Office of Fair Trading (QLD)<br>Office of State Revenue (NSW)<br>Office of State Revenue (QLD)<br>Residential Tenancies Authority (QLD), RevenueSA (SA)<br>RSPCA (Federal)<br>State Revenue Office ( VIC)<br>State Revenue (WA)<br>Police (ACT)<br>Police (SA)<br>Police (QLD)<br>Police (NSW), Police (NT)<br>Police (TAS)<br>Police (VIC) |

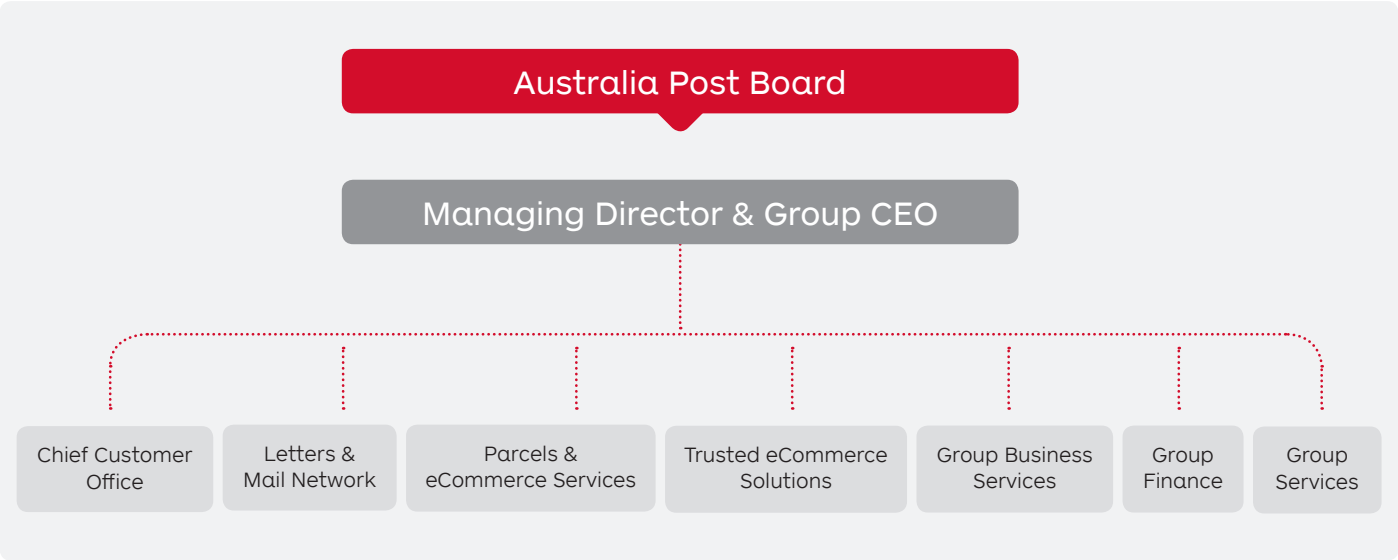
**Table 1. Disclosure of information/documents (section 90J "Authority")* continued**
(Applies to all information or documents)

| Authority for disclosure | Number of disclosures | Disclosures made to |
|---|---|---|
| | | Police (WA),<br>WorkCover Queensland,<br>Worksafe Victoria,<br>Anti-Corruption Commission (WA),<br>Australian Sports Anti-Doping Authority (ASADA),<br>Attorney-General's Department (Federal),<br>Australian Building and Construction Commission,<br>Australian Financial Security Authority,<br>Australian Pesticides and Veterinary Medicines Authority (Federal),<br>Department of Environment, Land, Water and Planning (VIC),<br>Department of Corrective Services (VIC),<br>Department of Health – Therapeutic Goods Administration (Federal),<br>Department of Human Services (Federal),<br>Department of Parks and Wildlife (WA),<br>Department of Racing, Gaming and Liquor (WA),<br>Department of Natural Resources and Environment (VIC),<br>Office of Director of Public Prosecutions,<br>Environmental Protection Authority,<br>Family Court of Australia,<br>National Parks and Wildlife,<br>Queensland Treasury – Office of Liquor, Gaming and Racing |

* There were no disclosures made under s. 90K (2) or (3).

Note: Commonwealth agencies, unless otherwise indicated.

## Our organisational structure



# Australia Post – the statistics

## 1 – Five Year Statistical Summary

| Consolidated ($m) | 2011/12 | Restated 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|---|---|---|---|---|---|
| Revenue ($m) | 5,126.2 | 5,893.2 | 6,383.3 | 6,373.8 | 6,562.2 |
| Expenditure ($m)[1] | 4,776.3 | 5,682.3 | 6,280.3 | 6,726.2 | 6,520.9 |
| Profit/(loss) before tax ($m)[1] | 366.7 | 210.7 | 103.0 | (352.1) | 41.0 |
| Total assets ($m) | 4,175.8 | 4,401.5 | 4,651.2 | 5,094.4 | 5,043.2 |
| Return on average operating assets (%)[1] | 11.5% | 6.2% | 3.4% | -8.2% | 1.8% |
| Community service obligations ($m) | 165.2 | 173.9 | 205.8 | 211.6 | 182.5 |
| Total taxes and government charges ($m) | 369.3 | 447.3 | 494.2 | 433.9 | 399.3 |
| Dividends declared ($m) | 213.7 | 192.7 | 78.8 | 0.0 | 20.0 |
| **Operations[2]** | | | | | |
| Full-time employees (excludes casuals) | 23,184 | 23,526 | 27,315 | 27,371 | 26,939 |
| Part-time employees (excludes casuals) | 9,398 | 8,938 | 8,613 | 8,395 | 7,990 |

1 Changes to AASB 119 Employee Benefits took effect on 1 July 2013. 2013 has been restated for like-for-like comparison. Years prior to 2013 have not been adjusted to reflect the changes as a result of this change in accounting standard.

2 Australia Post Corporation operations.

## 2 – Basic Postage Rate[3] (BPR) and consumer price index (CPI)

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| BPR cents | 60 | 60 | 70 | 70 | 100 |
| BPR concession cents | 0 | 0 | 60 | 60 | 60 |
| CPI all groups 8 capitals base 2011/12=100 | 100.4 | 102.8 | 105.9 | 107.5 | 108.6 |
| Year-on-year change in BPR (%) | 0.0% | 0.0% | 16.7% | 0.0% | 42.9% |
| Year-on-year change in CPI (%) | 1.2% | 2.4% | 3.0% | 1.5% | 1.0% |
| Change in real postage (%) | –1.2% | –2.4% | 13.7% | –1.5% | 41.8% |

3 Postage rates applicable to standard letters carried within Australia by ordinary post.

## 3 – Post offices at 30 June 2015

| | NSW/ACT | VIC/TAS | QLD | WA | SA/NT | Total |
|---|---|---|---|---|---|---|
| **Corporate offices** | | | | | | |
| 1 July 2015 | 261 | 202 | 123 | 79 | 63 | 728 |
| 30 June 2016 | 260 | 200 | 123 | 77 | 62 | 722 |
| **Licensed post offices** | | | | | | |
| 1 July 2015 | 864 | 955 | 471 | 291 | 318 | 2,899 |
| 30 June 2016 | 864 | 946 | 468 | 290 | 318 | 2,886 |
| **Community postal agencies** | | | | | | |
| 1 July 2015 | 144 | 97 | 200 | 104 | 234 | 779 |
| 30 June 2016 | 146 | 95 | 203 | 107 | 233 | 784 |
| **Total outlets** | | | | | | |
| **1 July 2015** | 1,269 | 1,254 | 794 | 474 | 615 | 4,406 |
| **30 June 2016** | 1,270 | 1,241 | 794 | 474 | 613 | 4,392 |

## Australia Post Environmental Performance Summary

| Indicator | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| **Scope 1 Emissions (tonnes)** | **119,478** | **120,367** | **116,251** | **115,620** | **119,345** |
| Natural Gas | 5,308 | 5,819 | 4,756 | 4,787 | 5,278 |
| LPG (All) | 5,820 | 5,796 | 5,962 | 5,753 | 5,399 |
| Diesel including generation | 96,488 | 97,320 | 95,809 | 95,954 | 100,301 |
| Petrol | 11,862 | 11,432 | 9,724 | 9,126 | 8,368 |
| **Scope 2 emissions (tonnes)** | **212,044** | **201,490** | **188,855** | **181,920** | **169,447** |
| Electricity Grid | 212,044 | 201,490 | 188,855 | 181,920 | 169,447 |
| **Scope 3 Emissions (tonnes)** | **492,373** | **457,328** | **651,563** | **642,795** | **592,888** |
| Energy and fuel losses | 36,761 | 36,120 | 39,479 | 34,061 | 29,483 |
| Subcontracted Road Transport | 103,984 | 109,654 | 214,232 | 264,494 | 237,061 |
| Sub-Contracted Air transport | 318,245 | 294,299 | 351,013 | 286,104 | 272,874 |
| Sub-contracted rail | 752 | 834 | 5,636 | 3,538 | 5,695 |
| Sub-contracted ship | 0 | 0 | 1,143 | 2,324 | 2,678 |
| Business Travel | 6,345 | 2,678 | 3,434 | 4,116 | 4,910 |
| LPO Electricity | 16,790 | 13,743 | 26,086 | 36,996 | 27,270 |
| Waste | 9,497 | N/A | 10,539 | 11,162 | 12,917 |
| **Other Indicators** | | | | | |
| Energy Consumed (GJ) | Not comparable | 2,633,936 | 2,499,868 | 2,426,095 | 2,443,571 |
| Renewable Energy Production (GJ) | 0 | 0 | 291 | 1,648 | 3,072 |
| Waste to landfill (Tonnes) | | | 11,060 | 9,899 | 9,381 |
| Waste Recycled – Operational | | | 7,141 | 9,092 | 8,484 |
| Waste Recycled and reuse – (Customers) | | | | 3,364 | 4,056 |
| Water (kilolitres) | | | | | 434, 656 |

Notes - Australia Post has only included StarTrack scope 3 emissions from 2014 when the organisation was integrated for a full reporting year. Australia Post reports all scope 3 related transport emissions based on the calendar year which is then reported to the International Postal Corporation.

## GHG Emissions Commentary

- **Scope 1 –** Australia Post has seen a 7% increase in diesel emissions in 2016 arising from a combination of emission factor changes, reduction in volume of biofuel, increased usage of some of the larger trucks.
- **Scope 2 –** Australia Post has seen a 7% reduction in electricity emissions arising from a combination of: emission factor changes, energy efficiency and property consolidation.
- **Scope 3 –** Australia Post has seen an 8% reduction in scope 3 emissions primarily associated with a reduction in road and air transport as product is moved onto the rail network wherever possible.

## Other Indicators

- **Energy Consumption –** Australia Post total energy usage has remained flat in FY16 reflecting eth increase in diesel usage and a reduction in electricity consumption.
- **Renewable Energy Production -** Australia Post continues to increase the amount of solar generation available across the Australia Post network with a total of 978 KW's of solar now in network.
- **Waste –** Australia Post has reported total waste to landfill of 8,484 tonnes a reduction of over 500 tonnes from FY15.
- **Water –** Australia Post has reported water of 434,656 kilolitres for FY16.

## Criteria

- Scope 1 and 2 emissions have been calculated in accordance with the NGER regulations.
- Scope 3 emissions have been calculated in accordance with the GHG protocol.

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